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# ARIZONA DEPARTMENT OF REVENUE

# ANNUAL REPORT

## 1979 — 80

**J. ELLIOTT HIBBS, Director**

**PAUL WADDELL, Assistant Director**
**Division of Administration**

**HAROLD SCOTT, Assistant Director**
**Division of Property & Special Taxes**

**DAVID P. JANKOFSKY, Assistant Director**
**Division of Taxation**

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J. ELLIOTT HIBBS
DIRECTOR

BRUCE BABBITT
GOVERNOR

# Arizona Department of Revenue

CAPITOL BUILDING
1700 W. WASHINGTON
PHOENIX, ARIZONA 85007

November 15, 1980

The Honorable Bruce Babbitt
Governor of Arizona
State Capitol, Ninth Floor
1700 West Washington
Phoenix, Arizona 85007

Dear Governor Babbitt:

The 1979-80 Annual Report of the Department of Revenue is hereby submitted to you in accordance with Section 42-105 of the Arizona Revised Statutes. In addition to reporting the mandated statistics on our activities, the Report presents to the taxpayers of Arizona and other interested parties a brief overview of the Department's operation, accomplishments, and plans.

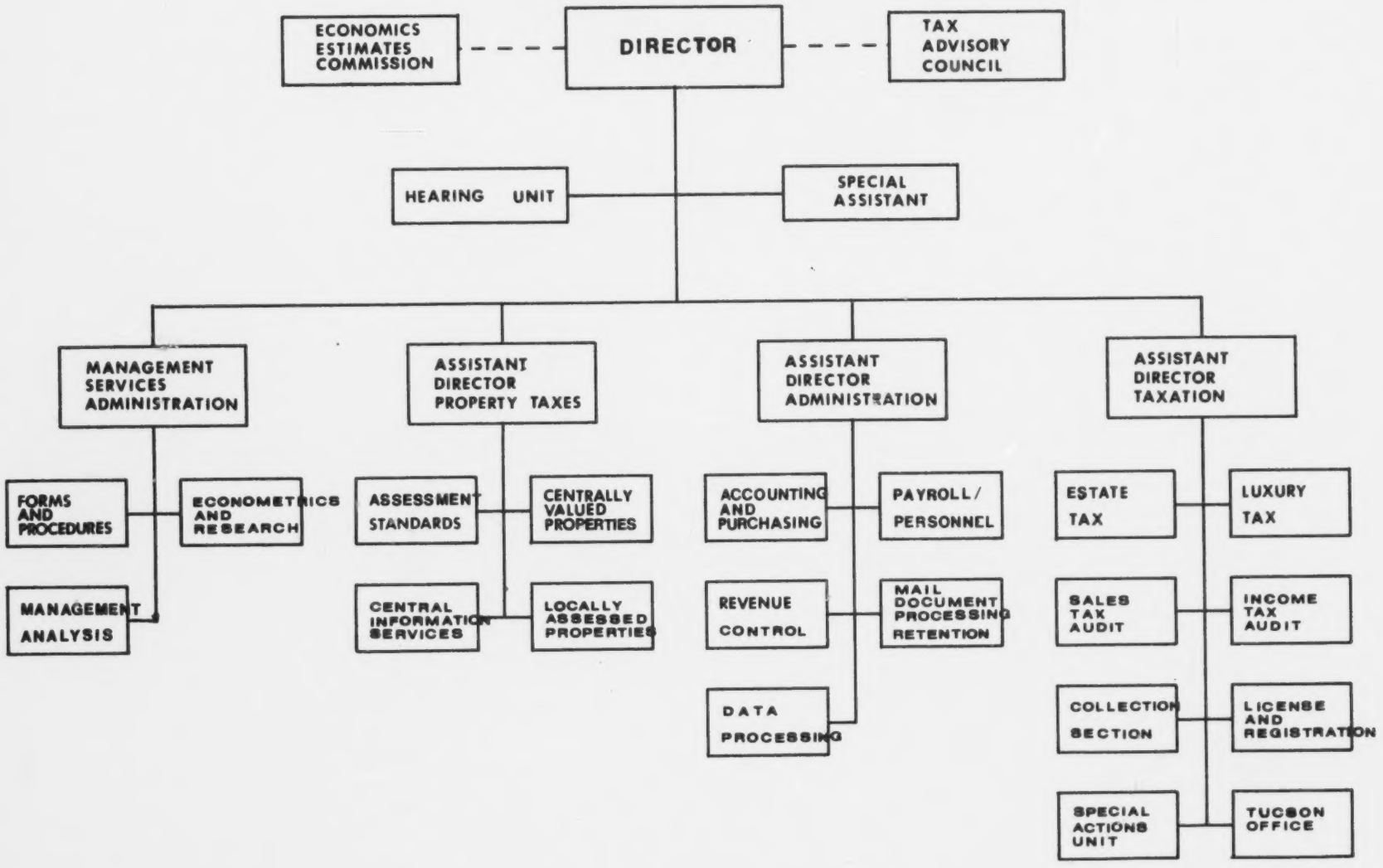
During this fiscal year, significant changes were made in our organization and management. The Department has made definite progress toward a functional organization of its activities. In fiscal year 1979-80, the collections functions were consolidated into one unit, and all document processing and accounts receivable activities were centralized. At the same time, procedures were standardized and revised. These changes will allow the Department to improve its responsiveness, flexibility, and effectiveness.

While the Department has made a number of improvements in operations as noted in the Department Highlights section, our goal is to continue and accelerate the momentum started in this fiscal year toward developing a more effective and responsible Department of Revenue.

Respectfully,

J. E. Hibbs
Director

# ARIZONA DEPARTMENT OF REVENUE
# ORGANIZATION CHART
# 1979 — 80



# Department Highlights

Fiscal year 1979-80 was a year of change for the Department of Revenue. Major changes occurred in management, organization, procedures and even physical facilities. The momentum created in FY 79-80 is continuing into FY 80-81 as further functional reorganization is planned.

Key personnel changes include the appointment of a new director, elimination of the sales tax and income tax administrator positions, consolidation of the Taxation Division collection functions under one administrator, and the creation of a single administrator for all DOR registration and licensing activities.

## Licensing and Registration

The consolidation of licensing and registration activities, which was started in FY 78-79, continued in this year and will be further refined in the upcoming months and years. By physically joining these activities and cross-training staff, the Department is offering a one-stop service to taxpayers who must be licensed or registered for sales, use, withholding, and tobacco tax activities.

Staff members now actively work with applicants to ensure they are fully registered. Application packages include material for all taxes. Change of Status notices are routinely cross-referenced, and base files have been expanded to include cross-reference data. Brochures have been developed to explain license or registration requirements, and interagency information exchanges have been accomplished to identify non-filers. The interaction of data will be enhanced in the five year Sales Tax License Renewal Program which will begin in FY 80-81.

## Collections

As a result of internal analysis, the Sales and Income/Withholding Collection Units were consolidated, and a mechanized, interim, Sales Tax Accounts Receivable Program was instituted. The resulting consolidation of staff has allowed management greater flexibility in assigning collector's accounts, resulting in a marked improvement in collections receipts as summarized in the following table:

Collections Receipts Summary Comparison

| Section | Fiscal Year 1978-79 | 1979-80 |
|---|---|---|
| Collections | $1,317,905 | $8,374,561 |
| Special Collections | 420,158 | 1,050,859 |
| Total Receipts | $1,738,063 | $9,425,420 |
| Percentage of Increase | 442% | |

The establishment of the interim mechanized accounts receivable system was a massive undertaking which required commitment of auditor and collection staff to edit and update the accounts receivable. During this year, the experience on managing the mechanized system has provided invaluable input for the automated system now being designed. Finally, the consolidation made it possible for one collector to pursue collections in one visit for all taxes which a single taxpayer owes.

Income Tax

During this fiscal year a revision to the procedures for processing income tax returns was initiated which significantly improved the Department's processing time. In spite of an unusually heavy late filing, initial refunds were released two weeks ahead of last year, all deposits for prompt filing were completed by June 1, the record 985,475 returns were processed after July 31 with the exception of problem returns which were less than 3.5% of total returns.

Data Processing

As a result of the Special Legislative Session on taxation, substantial changes had to be made to the Sales Tax and Property Tax Data Processing Programs. These changes were so extensive that new program development was severely curtailed. In spite of very short lead times, these changes were designed into the program and the dual system Property Tax Program was complete on time as were the revisions to the Sales Tax Program which affected returns mailed in early July.

Property Tax

In addition to working with Data Processing to rewrite

property appraisal and assessment programs, the Property Tax Division developed a new audit program for centrally valued properties. This program, which makes creative use of Federal government data such as Civil Aeronautics Board tapes, has resulted in substantial changes in assessments for some classes of properties.

Other Actions

The Administrative Review process was also revised to provide a faster response to appeals and to give the hearing officers more independence. The staff was expanded with the addition of a second hearing officer and a full-time secretarial staff.

In addition to the above major changes, a number of other achievements are worthy of note. Revisions in mail handling procedures have allowed the Department to take advantage of reduced postage of zip code sorted mailing. A tax practitioner newsletter was initiated to advise practitioners on changes and problems in tax collection. Specific new programs designed to improve employee morale include development of a department newsletter - The Bottomline - a sports program which included golf and an expansion of the supervisors' monthly meetings.

Performance Profile

| Year | Gross Revenue Collected | Operating Expenses | Revenue Collected Per $1 Expended |
|---|---|---|---|
| 1975-76 | $ 726,808,950 | $ 7,184,934 | $ 101.16 |
| 1976-77 | 835,909,291 | 7,992,316 | 104.59 |
| 1977-78 | 965,091,868 | 8,568,396 | 112.63 |
| 1978-79 | 1,186,190,713 | 9,746,178 | 121.71 |
| 1979-80 | 1,445,651,908 | 11,295,100 | 127.99 |

Planned Improvements

A phone answering section was added to the budget for FY 1980-81 which will provide faster and more efficient cycling of receivables.

The Sales Tax computer program is being revised to include sophisticated math and data checks on all sales tax returns as well as an automated accounts receivable program.

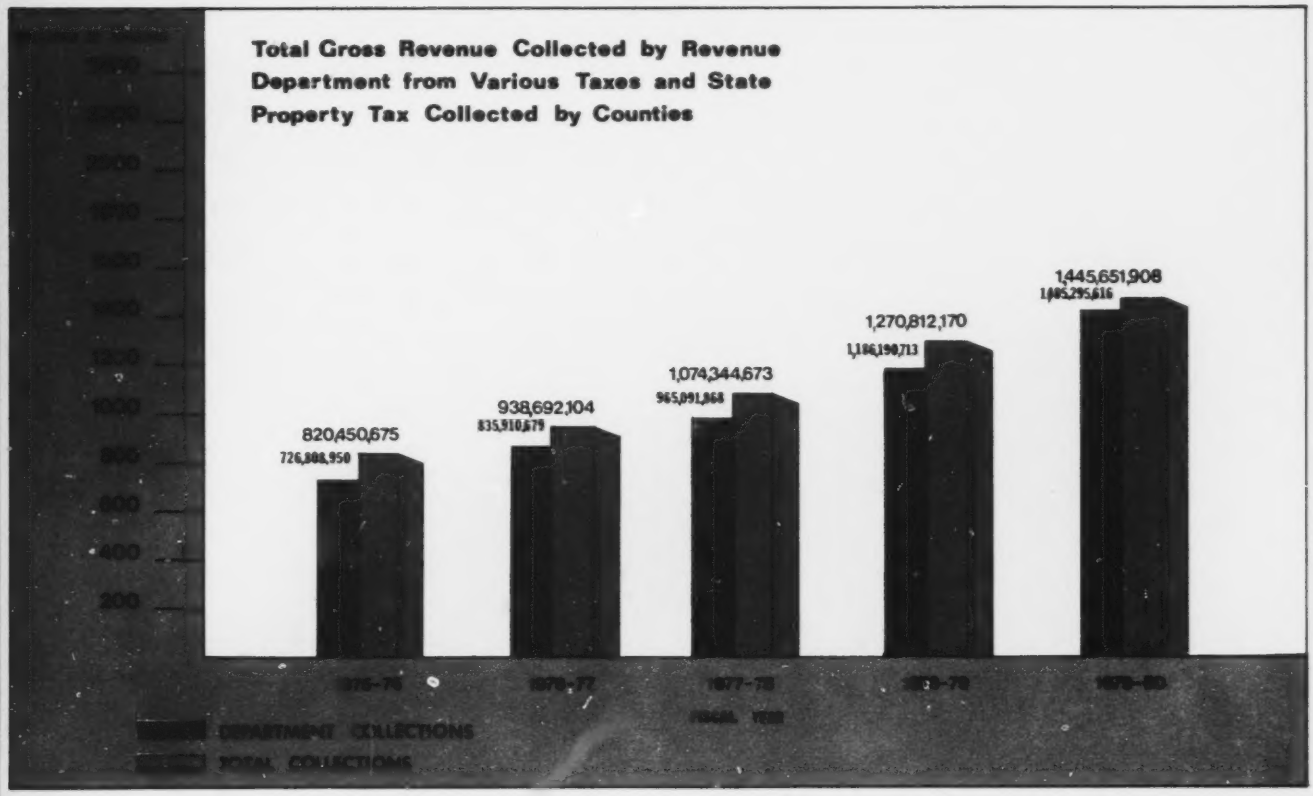
The entire document processing system has been revised and changes were implemented in the first part of FY 1980-81. Continued refinements will insure faster deposits of monies and an improved turnaround of documents while maintaining security of the documents.

The audit functions of sales, income, and withholding will be consolidated under one audit administrator who will be functionally responsible for these activities. This organization will facilitate the possibility of multi-tax audits, improved prioritization of adults and reduction in audit costs.

General Operations

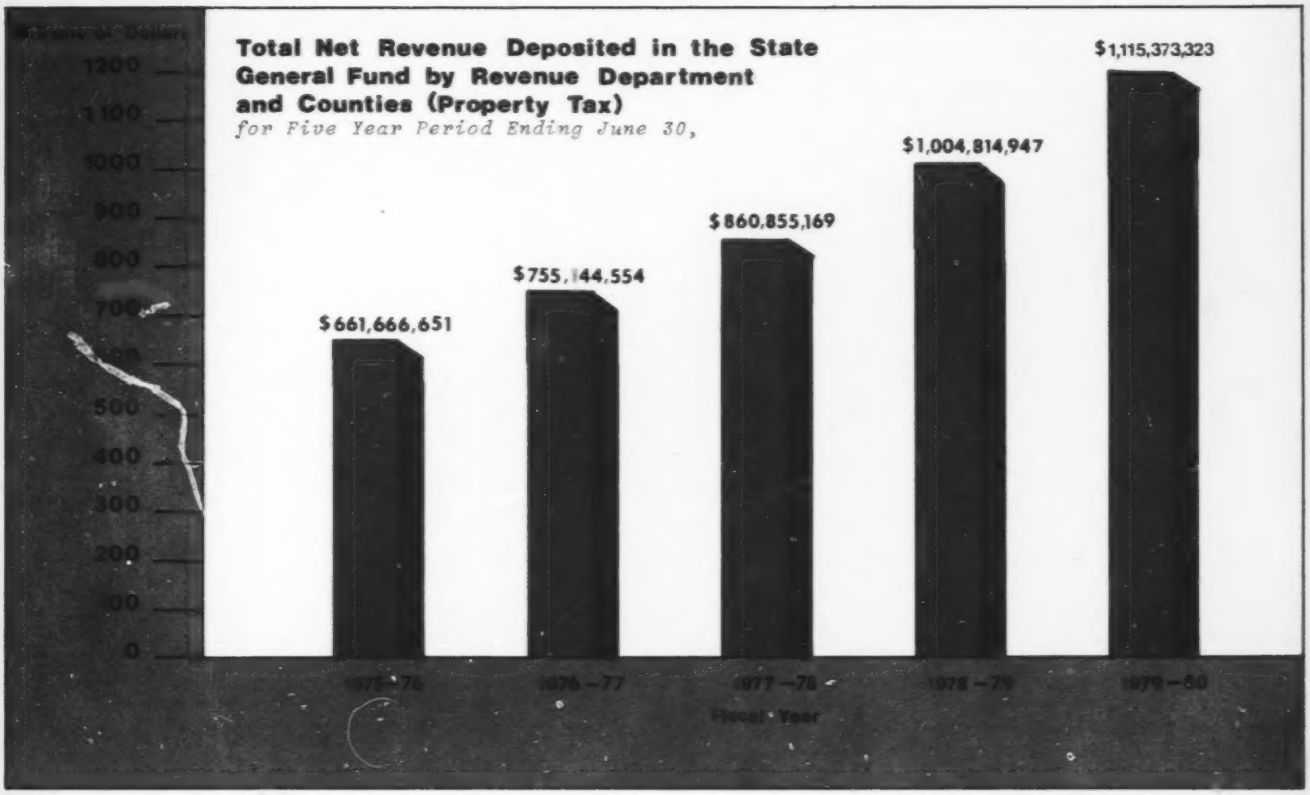
In June and July of 1980 the operating units of the Department were moved to accommodate additional staff authorized in the FY 1980-81 budget to streamline the document processing flow and improve public accessibility to operating units. The revised locations are as follows:

| WEST WING OF THE CAPITOL<br>WEST CORRIDOR | ROOM |
|---|---|
| License and Registration ..... | 104 |
| Forms ..... | 110 |
| Taxpayer Assistance ..... | 112 |
| Accounting & Purchasing ..... | 118 |
| Cashier (Revenue Control) ..... | 122 |
| EAST CORRIDOR | |
| Director ..... | 156 |
| Assistant Director, Administration | 156 |
| Hearing Section ..... | 166 |
| Management Services ..... | 172 |
| CHAMBER OF COMMERCE BUILDING<br>34 WEST MONROE | |
| Sales & Use Tax Auditing ..... | 600 |
| Income Tax Auditing ..... | 620 |
| Property & Special Taxes ..... | 700 |
| Estate Tax ..... | 1001 |
| 49 WEST VAN BUREN | |
| Taxpayer Assistance | |
| 229 NORTH FIRST AVENUE | |
| Collections | |




## Analysis of Gross Revenue Collected

| SOURCE | 1975-76 | 1976-77 | 1977-78 | 1978-79 | 1979-80 |
|---|---|---|---|---|---|
| SALES & USE TAX | | | | | |
| Transaction Privilege | $187,536,545 | $216,049,456 | $ 247,838,898 | $ 302,812,573 | $ 344,755,193 |
| Education Excise | 181,085,020 | 208,981,016 | 240,826,672 | 292,999,847 | 335,360,847 |
| Special Education | 59,996,809 | 69,778,747 | 81,151,553 | 98,985,428 | 121,759,143 |
| Use | 7,204,281 | 8,997,174 | 8,647,600 | 10,657,575 | 15,267,048 |
| Bingo | 82,788 | 96,394 | 118,114 | 127,072 | 142,458 |
| Rental Occupancy | 194,752 | 179,845 | 169,562 | 155,854 | 147,904 |
| Subtotal | $436,100,195 | $504,082,632 | $ 578,752,399 | $ 705,738,349 | $ 817,432,593 |
| INCOME TAX | | | | | |
| Withholding | $107,294,695 | $137,230,597 | $ 162,628,285 | $ 199,701,449 | $ 269,412,512 |
| Individual | 74,191,425 | 77,939,281 | 92,031,661 | 116,113,005 | 121,471,839 |
| Corporation | 48,656,125 | 54,596,220 | 66,307,381 | 92,608,295 | 117,764,492 |
| Subtotal | $230,142,245 | $269,766,098 | $ 320,967,327 | $ 408,422,749 | $ 508,648,843 |
| LUXURY TAX | | | | | |
| Spirituous Liquor | $ 10,516,324 | $ 10,783,102 | $ 11,651,750 | $ 12,684,041 | $ 13,227,227 |
| Vinous Liquor | 1,823,873 | 1,895,699 | 2,073,566 | 2,361,719 | 2,480,932 |
| Malt Liquor | 4,799,293 | 5,100,868 | 5,424,077 | 6,009,779 | 6,386,712 |
| Tobacco - All Types | 35,132,747 | 35,683,918 | 38,005,160 | 38,977,667 | 41,232,502 |
| Licensing | 675 | 518 | 647 | 1,593 | 752 |
| Subtotal | $ 52,272,912 | $ 53,464,105 | $ 57,155,200 | $ 60,034,799 | $ 63,328,125 |
| ESTATE TAX | | | | | |
| Estate | $ 4,570,680 | $ 4,762,119 | $ 4,398,836 | $ 8,475,196 | $ 12,258,772 |
| Unclaimed Property | 333,301 | 439,299 | 356,622 | 354,745 | 425,807 |
| Escheated Estates and Unclaimed Dividends | 217,796 | 106,498 | 48,276 | 111,258 | 157,302 |
| Subtotal | $ 5,121,777 | $ 5,307,916 | $ 4,803,734 | $ 8,941,199 | $ 12,841,881 |
| FLIGHT PROPERTY TAX | $ 1,782,664 | $ 2,012,487 | $ 2,064,993 | $ 2,053,858 | $ 2,507,401 |
| PRIVATE CAR TAX | $ 1,389,157 | $ 1,277,441 | $ 1,348,215 | $ 999,759 | $ 536,773 |
| DEPARTMENT TOTAL | $726,808,950 | $835,910,679 | $ 965,091,868 | $1,186,190,713 | $1,405,295,616 |
| STATE PROPERTY TAX | $ 93,641,725 | $102,781,425 | $ 109,252,805 | $ 84,621,457 | $ 40,356,292 |
| TOTAL | $820,450,675 | $938,692,104 | $1,074,344,673 | $1,270,812,170 | $1,445,651,908 |




## Analysis of Net Revenue

| Source | 1975-76 | 1976-77 | 1977-78 | 1978-79 | 1979-80 |
|---|---|---|---|---|---|
| Sales Tax | $325,712,250 | $376,556,322 | $432,879,957 | $527,175,377 | $613,572,917 |
| ** | 49.23% | 49.87% | 50.28% | 52.47% | 55.01% |
| Income Tax | 182,247,076 | 214,529,844 | 254,741,577 | 322,175,377 | 389,980,984 |
| ** | 27.54 | 28.41 | 29.59 | 32.09 | 34.96 |
| Luxury Tax | 52,097,533 | 53,263,758 | 55,263,758 | 58,812,738 | 61,978,771 |
| ** | 7.87 | 7.05 | 6.5 | 5.85 | 5.56 |
| Estate Tax | 4,796,286 | 4,723,277 | 4,627,365 | 8,745,365 | 12,601,638 |
| ** | .73 | .63 | .54 | .87 | 1.13 |
| Flight Property Tax | 1,782,664 | 2,012,487 | 2,064,993 | 2,053,858 | 2,507,401 |
| ** | .27 | .27 | .24 | .20 | .22 |
| Private Car Tax | 1,389,157 | 1,277,441 | 1,348,215 | 999,759 | 536,773 |
| ** | .21 | .17 | .16 | .10 | .05 |
| State Property Tax * | 93,641,725 | 102,781,425 | 109,252,805 | 84,621,457 | 34,194,839*** |
| ** | 14.15 | 13.61 | 12.69 | 8.42 | 3.07 |
| Total Net Revenue | $661,666,651 | $755,144,554 | $860,855,169 | $1,004,814,947 | $1,115,373,323 |
| ** | 100.00% | 100.00% | 100.00% | 100.00% | 100.00% |

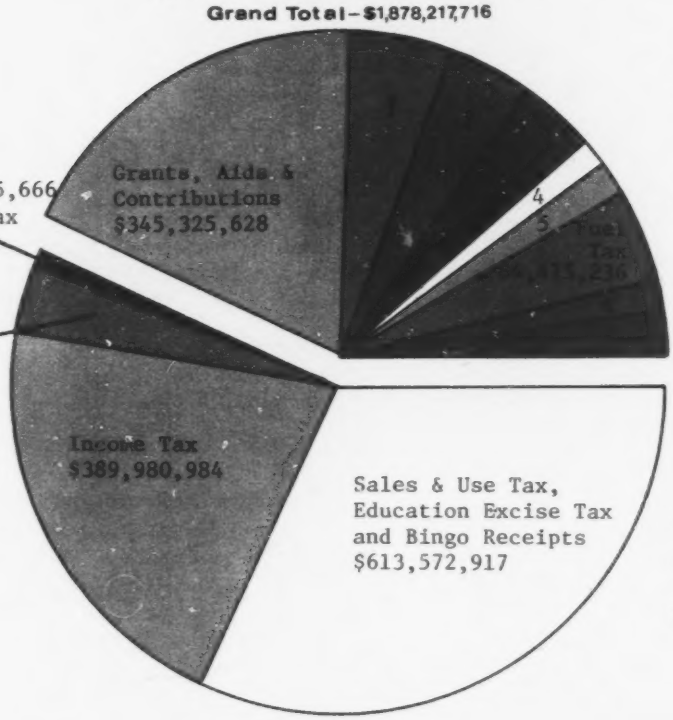
* Deposited in the State General Fund by Counties

** Percentage of total revenues deposited in the State General Fund

*** The state property tax receipts declined because the state tax rate for fiscal year 79-80 was cut to .48 per $100 assessed valuation from $1.10 for the prior year.

## Combined General and Special Revenue and Aid Collections of Arizona for 1979-80

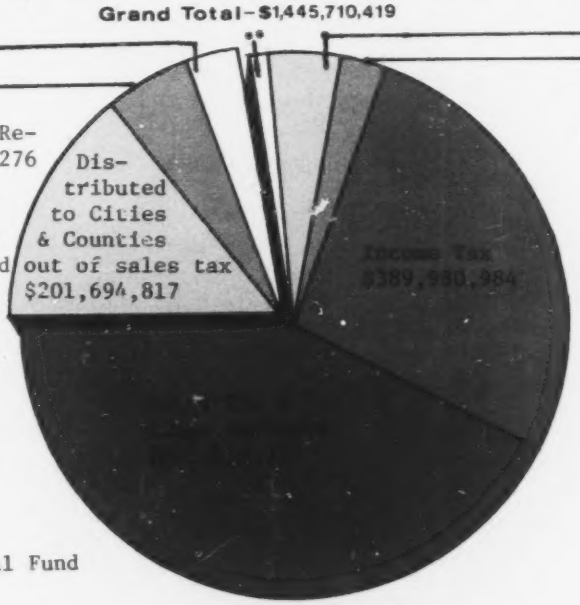
**Grand Total-$1,878,217,716**




1 Sales & Service:$96,774,259
2 Misc. Dividends, Interest and other: $79,138,145
3 Licenses, Fees, Permits: $70,322,748
4 Other Taxes:
Aircraft License:$1,614,242
Boulder Canyon Project $ 200,000
Common Carrier: $13,385,587
Pari-mutuel: $ 9,573,411
Compensation Insurance: $ 4,516,077
Watercraft Licenses: $ 371,375
Boxing & Wrestling: $ 7,171
5 Insurance Premiums: $29,457,628
6 Motor Vehicle Tax: $31,992,909
7 State Property Tax: $34,194,839

## Distribution of Total Gross Tax Collected by Revenue Department and Counties (Property Tax) in 1979-80

**Grand Total-$1,445,710,419**




Urban Revenue Sharing $43,909,655

Refunds & Charge-offs by Revenue Department $78,512,276

Also Distributed:
$156,164 to the Permanent School Fund from Escheated Estate Taxes.
$192 to the Suspense Fund from Unclaimed Shares and Dividends.

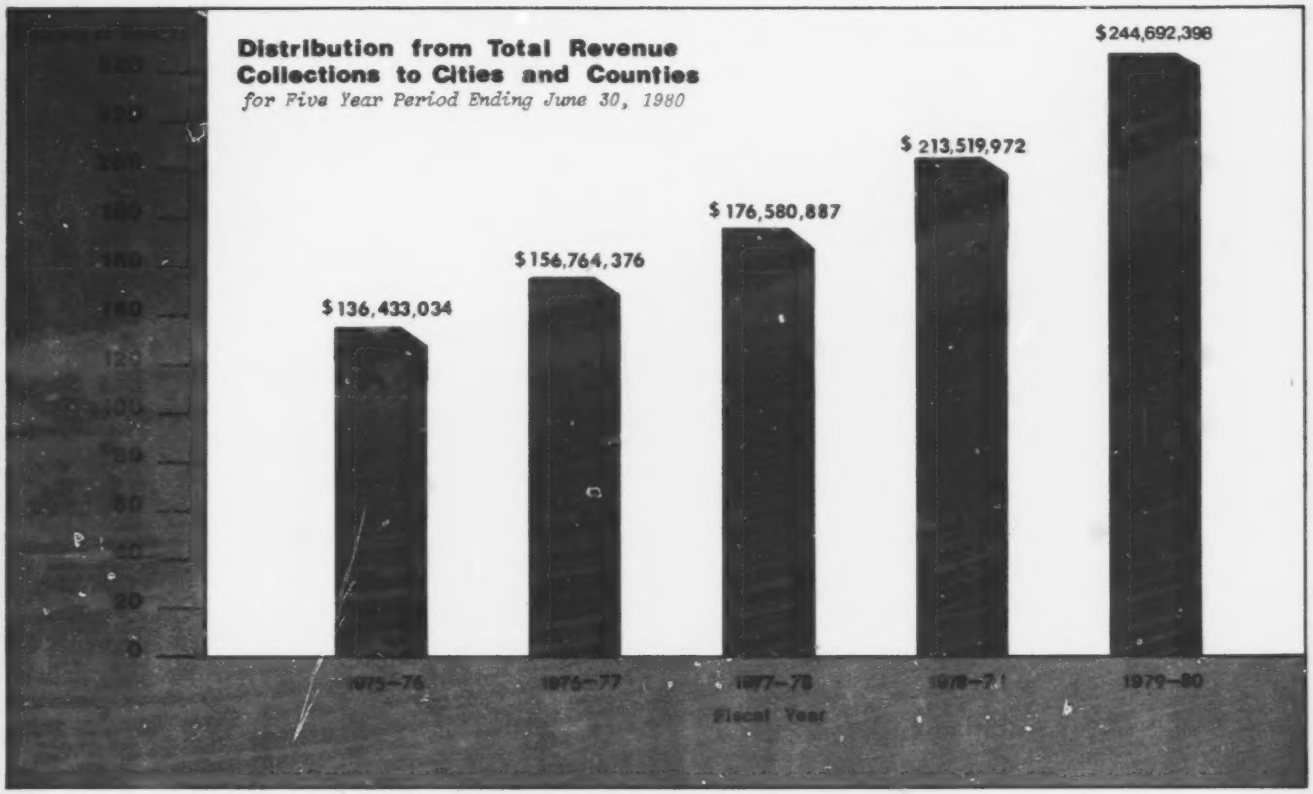
(Percentages too small to graph)

* Deposited in the General Fund

Luxury Tax $61,978,771 *

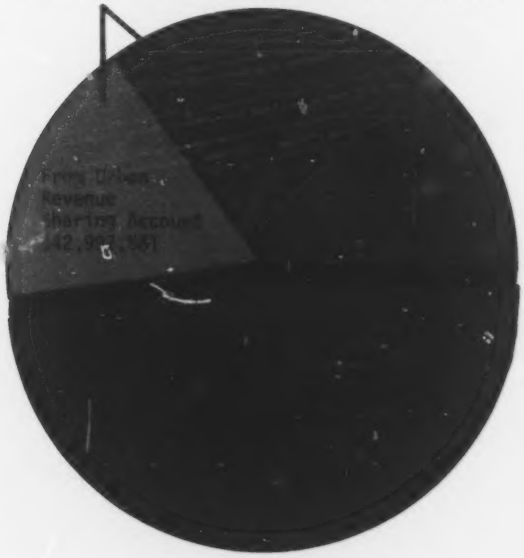
State Property Tax $34,194,839

** Estate Tax $12,445,666 *
Flight Property Tax $2,565,912 * and
Private Car Tax $536,773 *




## Distribution To Cities and Counties in Year Ending June 30, 1980

Distribution to Cities from Sales Tax Receipts and Urban Revenue Sharing Account $129,044,858 or 52.74% of Total Distribution of $244,692,398.



# Director's Office

The Director's Office contains three separate areas that provide Department-wide support: the Hearing Office, Management Services, and Budget.

The Hearing Unit was expanded by the addition of a second hearing officer and a secretary in order to provide prompt response to taxpayer appeals. During the 1979-80 fiscal year there were 199 dockets scheduled for hearing, of which 172 were actually heard. Only six of these were appealed to Superior Court. In order to further enhance the independence of this Unit, it was established in a separate set of offices and the Review procedure was revised to grant the hearing officers more autonomy in their decision making.

The Management Services Unit evolved from the previous, smaller Research & Special Projects Unit. It now serves three major functions. First, through the econometrics staff, it provides support for the Director and the Economic Estimates Commission in the form of economic estimates, research and analysis, and fiscal note estimates for proposed legislation; secondly, it provides management analyses services to the entire department.

In this capacity, it assisted the Division of Taxation in implementing an Accounts Receivable Program for sales tax which resulted in increased revenues from Collections of over $1,000,000. The Unit conducted an evaluation of the document processing activities for the sales, withholding, and income tax documents which resulted in the functional reorganization of these activities in standardization of the document flow process. The recommendations from this study, which are currently being implemented, will result in a shorter document processing time, faster turn-around in deposits of revenue and greater accountability for the process. Other completed studies resulted in improvements in the Administration Hearing Process, and the Private Car and Airline tax accounting systems.

Finally, the Management Services Division has a Forms and Procedures Section the function of which is to design effective forms and related procedures. The Section has developed improved forms for notifying taxpayers of adjustments to their income taxes, billing statements, the 1980 Individual income tax returns, and

the 1980 Corporate tax returns. The Section is presently working on simplifying the Privilege (Sales) tax return with the objective of reducing the fill-in time by the taxpayer and increasing the processing capabilities of the Department.

Additional duties assigned this Division include the development and publication of the first Department Tax Practitioneer's Newsletter, preparation of the Annual Report, and facilities planning. During the fourtn quarter of the fiscal year, the facilities planning duties included redesigning the Department's floor space to accommodate 92 additional staff persons and the coordination of construction and the movement of staff.

In the upcoming year, with the increased staff, approved plans include: expanded support of the Economic Estimates Commission; analysis of the audit activities of the Department; completion of the remodeling; assistance to the Document Processing Unit; analysis of file support procedures; evaluation of alternative revenue processing equipment and methods; analysis of satellite offices; a coordinated analysis of the Withholding/Unemployment Insurance tax process between the Department of Revenue and the Department of Economic Security; and performance audits of selected units.

# Administration Division

The Administration Division performs two major functions in the Department of Revenue. The first of these is a service oriented function for the other divisions of the agency and the second is a processing function.

The internal service oriented functions are handled primarily by Accounting & Purchasing; Payroll/Personnel; Mail & Records and Data Processing. Services provided include travel, purchasing, inventory control, mail distribution, file retention, responses to personnel questions, paycheck distribution and programming and systems development.

The Accounts Receivable Section, Revenue Control, as well as Data Processing and Mail & Records, account for the processing areas. Processing of sales, income, corporate and withholding documents involves the editing of tax documents, deposit of revenue, keying of information for computer retrieval, handling of error returns and referral of accounts for billing.

During the 79-80 fiscal year, the thrust of the Division was toward improved efficiency in processing and innovation at the agency service level. The Division opened and deposited all timely income tax mail/revenue by April 28 and May 3 respectively. For the 1980 income tax season, our goal is to open timely returns by April 27th and deposit these revenues by May 1st. Approximately $100,528,000 was collected in income taxes during the period of January 1, 1980 through April 15, 1980 from 796,930 income tax documents.

Revenue Control implemented an experimental hiring program whereby temporaries are employed during peak filing or overlapping filing periods. The extra manpower allows for more rapid processing and deposit of tax dollars. Our goal for the 1980-81 fiscal year is deposit of revenues during normal processing periods within 24 hours.

To effect improvement of our internal workings, several procedures/programs have been set up. An interim disaster recovery plan for selected documents was put into effect. A comprehensive study is being conducted in the Data Processing Section of priorities in the areas of systems, operations and techniques. Once Management has completed their review of these priorities, a final recommendation will be implemented.

A request for Data Processing Services procedure to improve user/DP communication and production tracking was implemented. The procedure is used to request development and support information on new and existing systems and programs.

Payroll/Personnel perfected a warrant distribution procedure to insure a check and balance system for the preparation, pickup and distribution of payroll checks.

In the 1980-81 fiscal year, the Division is looking toward new Data Processing systems development in the renewal of license registrations, as well as a completed computerized accounts receivable system by late 1981. In addition, systems for tracking capital inventory and implementation of an FTE tracking system are scheduled for completion in FY 80-81.

The Division will develop procedural training manuals in the area of accounts receivables for sales and withholding processing, mail processing and accounting functions.

Already accomplished in the 1980 FY was the installation of a new open shelf filing system in the records section for approximately 1 linear mile of tax records. In conjunction with this, recommendations for improved handling, storage and destruction of tax records will be submitted this year.

In conjunction with Management Services, management information systems will be developed for each section to chart document flow, deposits and internal processing of items such as travel, etc.

# Taxation Division

## Estate Tax Audit Section

The primary function of the Estate Tax Section is to maintain a comprehensive program for the collection of revenue from estate taxes, unclaimed property and escheated estates. Each year an effort is made to update the administration of the Estate Tax Section through changes in policy and pertinent legislation.

In 1979, the Arizona Legislature repealed Title 42, Chapter 9, and amended Title 42 by adding a new Chapter 9. The new language of the statute conformed Arizona Estate Tax Law to the Federal Internal Revenue Code. This law became effective January 1, 1980 and allows the same marital deduction and exemption as the Federal law, and exempts qualified pension and profit-sharing plans and servicemen's benefits.

Computation of Estate Tax

A. Resident Decedent:

The Arizona estate tax for an Arizona resident decedent is an amount equal to the Federal credit, if any, paid to another state and attributable to realty or tangible personal property having situs in that state;

B. Non-Resident:

The Arizona estate tax for a non-resident decedent is that portion of the Federal credit for state death taxes attributable to tangible personal property or realty owned by the decedent and having situs in the State of Arizona.

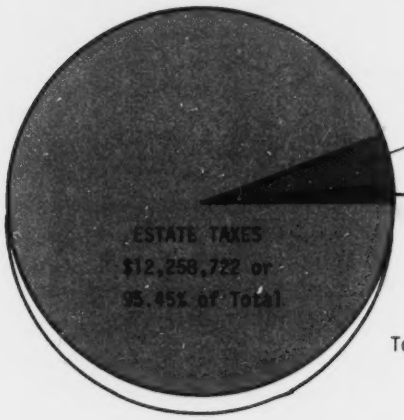
Past Year's Activities

Among others, the Estate Tax Section carried out the following functions for fiscal 1979-80:

Audited and processed 2,227 taxable estate returns;

- Processed 9,081 non-taxable estate returns;
- Issued 2,608 temporary waivers on stocks and real property;
- Corresponded with 3,500 taxpayers regarding taxable estates;
- Answered 2,524 telephone inquiries regarding taxable estates;
- Deputized 856 officers in banks to inventory safe deposit boxes;
- Issued 2,284 consents to transfer stock;
- Released the contents of 3,507 safe deposit boxes to joint tenants and personal representatives;
- Released 4,391 bank accounts;
- Processed 9,503 notices of life insurance payments;
- Answered 4,235 mail and telephone inquiries regarding non-taxable estates;
- Received and processed 1,831 Annual Reports of Unclaimed Property Holders;
- Established 8,015 individual accounts of last known owners of unclaimed property;
- Compiled 6,380 accounts for legal advertising;
- Responded to 4,485 telephone and mail queries relative to unclaimed property; and
- Inventoried contents from 2,359 unclaimed safe deposit boxes.

## GROSS ESTATE TAX COLLECTION FOR 1979-80

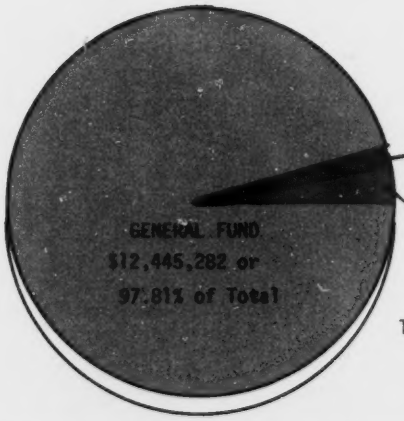



Unclaimed Property
$425,807 or 3.32%
of Total

Escheated Estates
$156,164 or 1.22%
of Total and
Unclaimed Shares
and Dividends
$1,138 or .01%
of Total

Total Collections of $12,841,881

| SUSPENSE FUND FOR PERMANENT SCHOOL FUND ACCOUNT | | |
|---|---|---|
| Balance as of July 1, 1979 | | $15,758 |
| Collections Deposited in Suspense Fund | | $47,850 |
| Refunds from Suspense Fund From 1979-80 Collections | $47,850 | |
| From Previous Year's Collections | $ 192 | $48,042 |
| Suspense Fund Balance as of June 30, 1980 | | $15,556 |

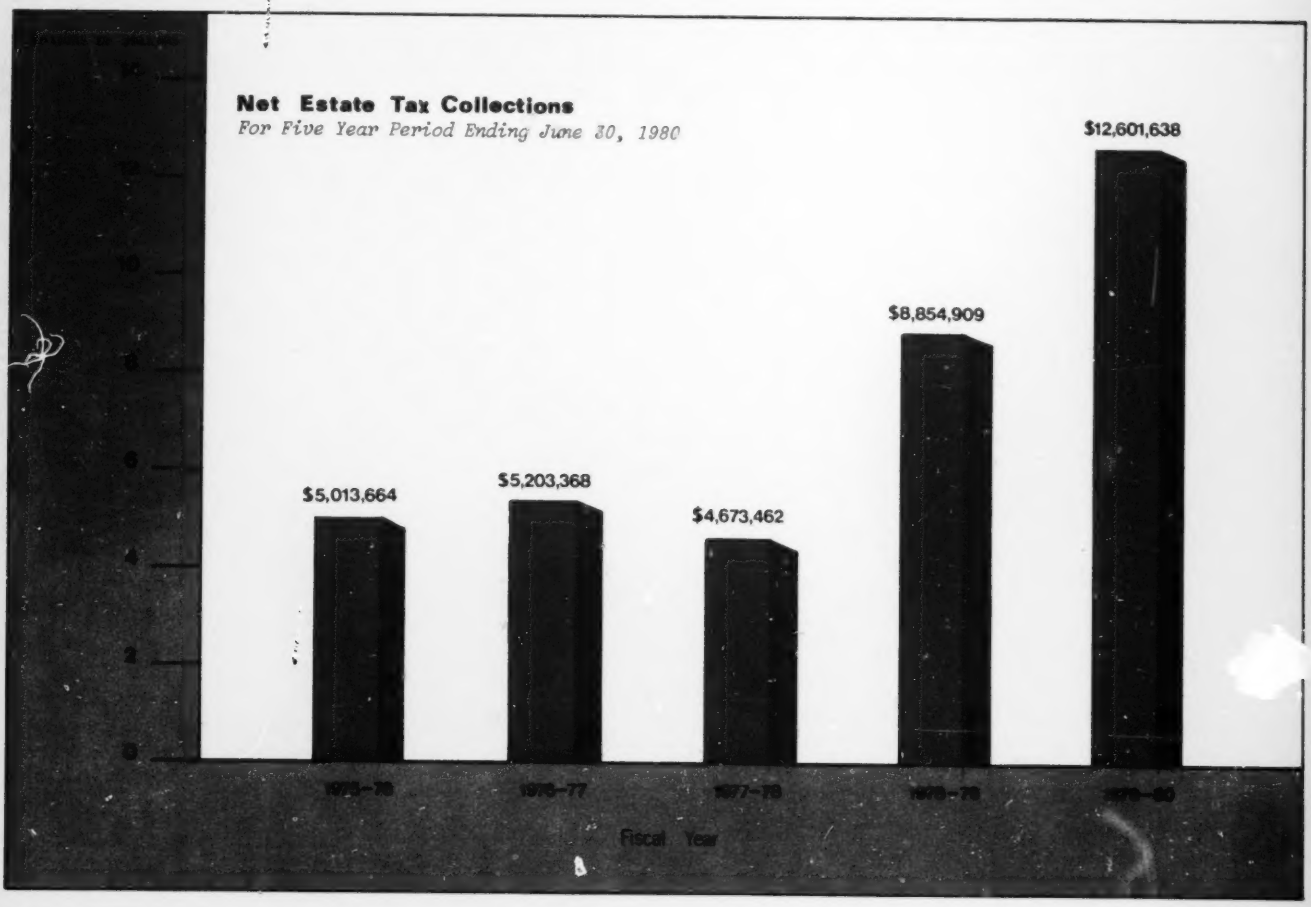



Permanent School Fund
$156,164 or 1.22% of
Total and Suspense
Fund for Permanent
School Fund Account
($192) or .00% of
Total

Refunds $240,243 or
1.87% of Total

Total Distribution of $12,842,265

## DISTRIBUTION OF GROSS ESTATE COLLECTION




## Analysis of Net Estate Tax Collections

| Source | 1975-76 | 1976-77 | 1977-78 | 1978-79 | 1979-80 | Percent of Collections in 1979-80 |
|---|---|---|---|---|---|---|
| Estate Taxes | $4,570,680 | $4,762,119 | $4,398,836 | $8,475,196 | $12,258,772 | |
| Refunds | 58,606 | 38,842 | 54,782 | 46,695 | 141,112 | |
| Net | 4,512,074 | 4,723,277 | 4,344,054 | 8,428,501 | 12,117,660 | 96.16% |
| Unclaimed Property | 333,301 | 439,299 | 356,622 | 354,745 | 425,807 | |
| Refunds | 49,089 | 62,423 | 73,311 | 37,624 | 99,109 | |
| Net | 284,212 | 376,876 | 283,311 | 317,121 | 326,698 | 2.59% |
| Escheated Estates | 68,396 | 93,776 | 46,097 | 100,674 | 156,164 | 1.24% |
| Unclaimed Dividends | 149,400 | 12,722 | 2,179 | 10,584 | 1,138 | |
| Refunds | 418 | 3,283 | 2,179 | 1,971 | 22 | |
| Net | 148,982 | 9,439 | -0- | 8,613 | 1.116 | .01% |
| Total Net Revenue | $5,013,664 | $5,203,368 | $4,673,462 | $8,854,909 | $12,601,638 | 100.00% |

# Income Tax Audit Section

The Income Tax Audit Section is responsible for the auditing of individual and corporate tax returns and for providing taxpayer assistance. The activities of this Section are separated into the following units: Revenue Agents' Reports, Amended Returns, Office Audit, Fiduciary Audit, Correspondence, Taxpayer Assistance, Corporate Taxpayer Audit, and the Administrative Unit which is responsible for the overall performance of the Section.

The first graduated income tax law in the State of Arizona was enacted in 1933. Since that time a number of changes in the Statutes have been enacted, culminating with the Income Tax Act of 1978. This act uses the Federal Adjusted Gross Income as a starting point, and then requires numerous additions and subtractions to arrive at the Arizona Adjusted Gross Income which is taxable to Arizona. Each year, changes in the Federal Income Tax Code are included in the Arizona Code after ratification by the State Legislature.

Past Year's Activities

During the 1979-80 fiscal year, there were several changes within the Income Tax Section. The collections, billing and error resolution functions were removed from the section and now operate under the Collections Section and Accounts Receivable Unit respectively. These changes were the result of Departmental efforts to organize the various sections under their respective functional responsibilities.

The Income Tax Section served more than 25,300 taxpayers who visited this area seeking information and assistance. The Section's personnel responded to 254,652 telephone calls, a 64% increase from last year, and assisted taxpayers through 12,237 pieces of correspondence, up 61% from last year.

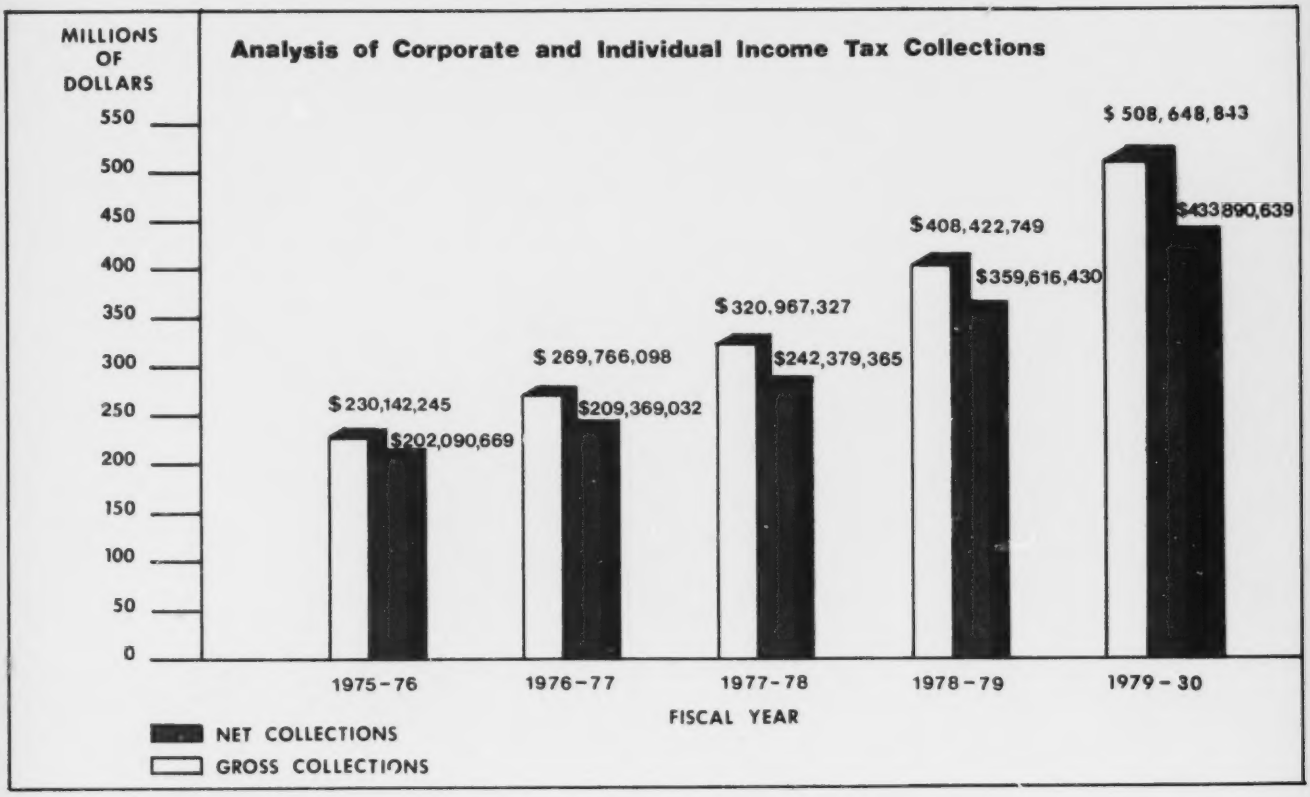
This year, a total of $70,936,406 was refunded to taxpayers, up 57% from last year. Almost half of these refunds were credits granted under the solar energy, residential insulation, property and renter tax credit

programs. A summary comparison of fiscal year claims filed and allowed follows the end of this section.

This Section was affected by a landmark decision which was handed down from the Arizona Supreme Court, which upheld the Department's position on the computation of the allowable federal tax deduction. Commonly known as the net-to-net method, this deduction was allowed based on taxes actually paid to the federal government. The case is known as the Transamerica Title Company vs. Arizona Department of Revenue.

SPECIAL TAX CREDITS SUMMARY

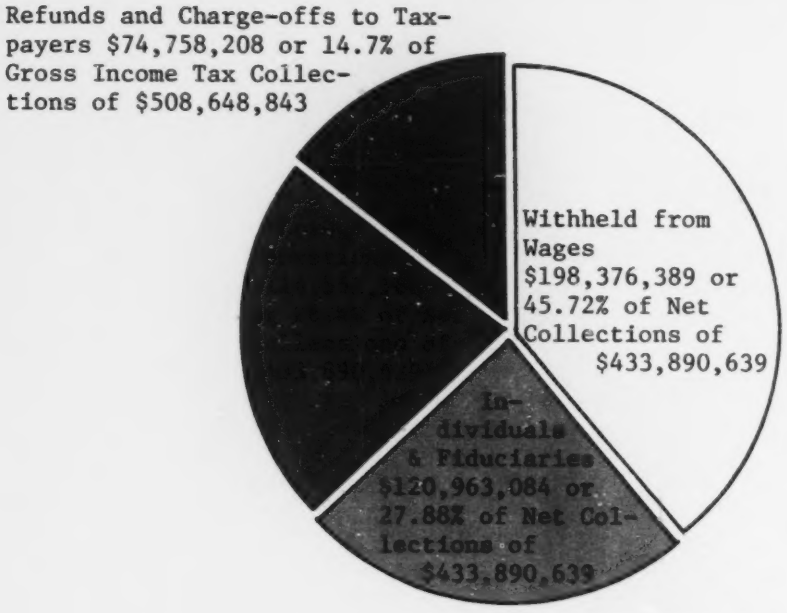
| Category of Credit | 1978-79 Claimants | 1978-79 Credits | 1979-80 Claimants | 1979-80 Credits | % of Change Claimants | % of Change Credits |
|---|---|---|---|---|---|---|
| Solar Energy Credit | 2,839 | $ 945,468 | 8,858 | $ 4,588,755 | 212.01% | 385.34% |
| Residential Insulation Credit | 20,318 | 1,384,019 | 35,527 | 2,397,942 | 74.85% | 73.26% |
| Property Tax Credit | 49,425 | 10,568,921 | 52,691 | 12,522,066 | 6.61% | 18.48% |
| Renter Credit | 147,566 | 11,150,767 | 184,204 | 15,461,802 | 24.83% | 38.66% |
| Total Credits | | $24,049,175 | | $34,970,565 | | 45.41% |




## Analysis of Corporate and Individual Income Tax Collections

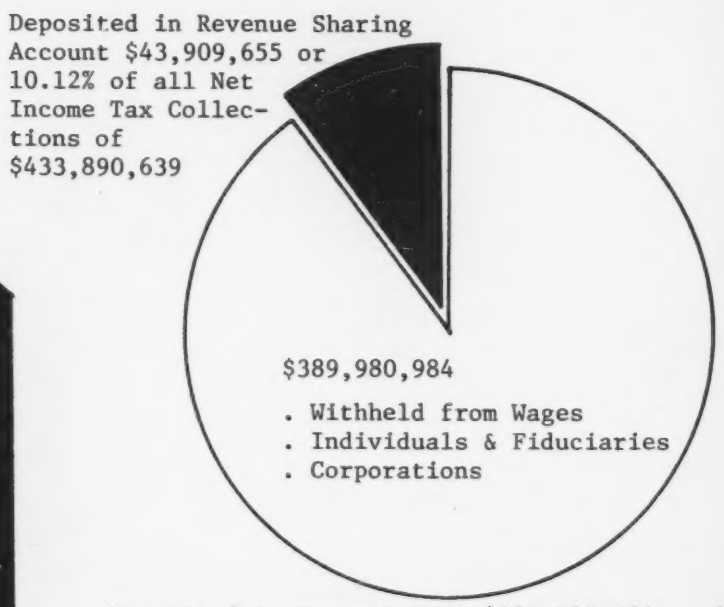
| Source | 1975-76 | 1976-77 | 1977-78 | 1978-79 | 1979-80 | Percent of Collections in 1979-80 |
|---|---|---|---|---|---|---|
| Withheld from Wages | | | | | | |
| Gross Revenue | $107,294,695 | $137,230,597 | $162,628,285 | $199,701,449 | $269,412,512 | |
| Refunds | 17,930,799 | 19,502 | 31,509,365 | 45,119,383 | 70,936,406 | |
| Charge-offs | 26,525 | 39,181 | 34,366 | 65,297 | 99,717 | |
| Net | $ 89,337,371 | $137,171,914 | $131,084,554 | $154,516,769 | $198,376,389 | 45.72% |
| Individual & Fiduciaries | | | | | | |
| Gross Revenue | 74,191,425 | 77,939,281 | 92,031,661 | 116,113,005 | 121,471,839 | |
| Refunds | 600,751 | 24,447,321 | 221,316 | 226,893 | 319,415 | |
| Charge-offs | 58,707 | 72,165 | 86,809 | 138,294 | 189,340 | |
| Net | $ 73,531,967 | $ 53,419,795 | $ 91,723,536 | $115,747,818 | $120,963,084 | 27.88% |
| Corporations (Including Banks and S & L Assns.) | | | | | | |
| Gross Revenue | 48,656,125 | 54,596,220 | 66,307,381 | 92,608,295 | 117,764,492 | |
| Refunds | 2,147,499 | 2,803,761 | 2,453,946 | 3,241,050 | 3,204,472 | |
| Charge-offs | 8,932 | 4,803 | 10,983 | 15,402 | 8,854 | |
| Net | $ 46,499,694 | $ 51,787,656 | $ 63,842,452 | $ 89,351,843 | $114,551,166 | 26.40% |
| Total Net Revenue | $209,369,032 | $242,379,365 | $286,650,542 | $359,616,430 | $433,890,639 | 100.00% |

## Sources of Net Income Tax Collections by Income Tax Division in 1979-80


Refunds and Charge-offs to Taxpayers $74,758,208 or 14.7% of Gross Income Tax Collections of $508,648,843
Withheld from Wages $198,376,389 or 45.72% of Net Collections of $433,890,639
Individuals & Fiduciaries $120,963,084 or 27.88% of Net Collections of $433,890,639

Net Income Tax Collections were $433,890,639 or 85.3% of Gross Income Tax Collections of $508,648,843

## Distribution of Net Income Tax Collections by Income Tax Division in 1979-80


Deposited in Revenue Sharing Account $43,909,655 or 10.12% of all Net Income Tax Collections of $433,890,639
$389,980,984
. Withheld from Wages
. Individuals & Fiduciaries
. Corporations

Deposited in General Fund $389,980,984 or 89.88% of all Net Income Tax Collections of $359,616,430

## Urban Revenue Sharing Account

| Urban Revenue Sharing Account | |
|---|---|
| Balance from 1978-79 | $ 3,583,131 |
| Receipts from 1979-80 | 43,909,655 |
| Total (Net) | 47,492,787 |
| Distributed 1979-80 | 42,997,581 |
| Balance on Hand | 4,495,205 |
| Amount Reverted to Gen.Fund | -- |
| Balance Forward to 80-81 | $ 4,495,205 |

# Distribution of Income Tax as Urban Revenue Sharing

| COUNTY/CITY | AMOUNT | % TO TOTAL DISTRIBUTION* |
|---|---|---|
| APACHE | | |
| Eagar | $ 49,796.42 | .1158 |
| Springerville | 29,212.97 | .0679 |
| St. Johns | 46,649.22 | .1084 |
| COCHISE | | |
| Benson | 86,623.35 | .2014 |
| Bisbee | 211,393.70 | .4916 |
| Douglas | 316,291.09 | .7356 |
| Huachuca City | 42,918.33 | .0998 |
| Sierra Vista | 510,679.87 | 1.1876 |
| Tombstone | 31,497.05 | .0732 |
| Willcox | 68,628.75 | .1596 |
| COCONINO | | |
| Flagstaff | 796,184.56 | 1.8516 |
| Fredonia | 20,253.64 | .0471 |
| Page | 149,541.50 | .3477 |
| Williams | 60,557.73 | .1408 |
| GILA | | |
| Globe | 186,114.73 | .4328 |
| Hayden | 32,563.16 | .0757 |
| Miami | 86,141.27 | .2003 |
| Payson | 73,349.47 | .1705 |
| Winkleman | 24,720.51 | .0574 |
| GRAHAM | | |
| Pima | 36,598.66 | .0851 |
| Safford | 150,937.45 | .3510 |
| Thatcher | 72,740.43 | .1691 |
| GREENLEE | | |
| Clifton | 129,110.39 | .3002 |
| Duncan | 19,619.12 | .0456 |
| MARICOPA | | |
| Avondale | 168,170.75 | .3911 |
| Buckeye | 65,963.76 | .1534 |
| Chandler | 508,471.82 | 1.1825 |
| El Mirage | 99,212.15 | .2307 |
| Gila Bend | 45,557.92 | .1059 |
| Gilbert | 91,445.79 | .2126 |
| Glendale | 1,708,053.15 | 3.9724 |
| Goodyear | 59,415.64 | .1381 |
| Guadalupe | 108,755.30 | .2529 |
| Mesa | 2,557.409.71 | 5.9477 |
| Paradise Valley | 231,495.01 | .5383 |
| Peoria | 196,901.46 | .4579 |
| Phoenix | 17,039,011.49 | 39.6278 |
| Scottsdale | 1,981,324.53 | 4.6079 |
| Surprise | 84,313.85 | .1960 |
| Tempe | 2,382,766.97 | 5.5416 |
| Tolleson | 98,501.54 | .2290 |
| Wickenburg | 73,806.35 | .1717 |
| Youngtown | 47,867.55 | .1113 |
| MOHAVE | | |
| Kingman | 203,678.16 | .4736 |
| NAVAJO | 343,245.18 | .7982 |
| Holbrook | 129,262.61 | .3006 |
| Show Low | 85,735.19 | .1993 |
| NAVAJO | | |
| Snowflake | $ 65,303.87 | .1518 |
| Taylor | 38,096.04 | .0886 |
| Winslow | 204,718.72 | .4761 |
| PIMA | | |
| Marana | 37,309.21 | .0867 |
| Oro Valley | 29,923.49 | .0695 |
| South Tucson | 157,866.39 | .3671 |
| Tucson | 7,808,801.64 | 18.1610 |
| PINAL | | |
| Apache Junction | 257,636.90 | .5991 |
| Casa Grande | 345,123.33 | .8026 |
| Coolidge | 170,328.23 | .3961 |
| Eloy | 164,795.25 | .3832 |
| Florence | 74,263.12 | .1727 |
| Kearny | 71,801.35 | .1669 |
| Mammoth | 51,826.82 | .1205 |
| Superior | 127,612.84 | .2967 |
| SANTA CRUZ | | |
| Nogales | 266,376.37 | .6195 |
| Patagonia | 15,989.65 | .0371 |
| YAVAPAI | | |
| Chino Valley | 51,268.52 | .1192 |
| Clarkdale | 27,080.90 | .0629 |
| Cottonwood | 91,115.81 | .2119 |
| Jerome | 7,360.33 | .0171 |
| Prescott | 428,625.02 | .9968 |
| Prescott Valley | 45,837.04 | .1066 |
| YUMA | | |
| Parker | 49,441.04 | .1149 |
| Somerton | 78,577.89 | .1827 |
| Welton | 24,542.90 | .0570 |
| Yuma | 763,469.20 | 1.7756 |
| TOTAL | 42,997,581.12 | 99.996 |

**Distribution of Income Tax Collections**
To Cities & Towns within Counties.

| County | Amount | % Total |
|---|---|---|
| Apache | $ 125,658.61 | .2922 |
| Cochise | 1,268,032.14 | 2.9491 |
| Coconino | 1,026,537.43 | 2.3874 |
| Gila | 402,889.14 | .9370 |
| Graham | 260,276.54 | .6053 |
| Greenlee | 148,729.51 | .3459 |
| Mariçopa | 27,548,444.74 | 64.0698 |
| Mohave | 546,923.34 | 1.2720 |
| Navajo | 523,116.43 | 1.2166 |
| Pima | 8,033,900.73 | 18.6845 |
| Pinal | 1,263,387.84 | 2.9383 |
| Santa Cruz | 282,366.02 | .6567 |
| Yavapai | 651,287.62 | 1.5147 |
| Yuma | 916,031.03 | 2.1304 |
| TOTAL | .$42,997,581.12 | 99.99* |

The percentage of revenue received by each city or town is based on population.
* Does not total 100.00 due to rounding

# License and Registration

The License and Registration Section was set up during the 1978-79 fiscal year in order to physically consolidate all licensing and registration activities in one office under one supervisor. This section's responsibilities include the issuance of the Transaction Privilege (Sales), Use, Retail Tobacco and Income Withholding licensing or registration number. This provides one-stop service for businesses to comply with the Department's tax licensing requirements. For fiscal year 1978-79, 21,773 new licenses were issued; 4,826 licenses were reissued and 32,258 licenses were cancelled. Total license fee revenue for the fiscal year was $26,599.

One major project that was initiated this fiscal year was a taxpayer compliance program. This program involves the exchange of information between participating state agencies and certain major cities. The exchanged information is cross-matched and all unlicensed or potential taxpayers are contacted by a special team. These taxpayers, unless it is determined that they are exempt, are processed through the licensing procedure.

A second major program initiated this year is the statutory five-year renewal of the sales tax licenses issued prior to January 1, 1977. Although the actual licensing process and contact of taxpayer will not begin until the 1980-81 fiscal year, the initial steps of planning and drafting of procedures were started this year.

# Luxury Tax Audit Section

A luxury tax was created in 1933 by the Arizona Legislature to provide additional monies for unemployment and welfare relief.

Statutorily, the Department is charged with the issuance of tobacco licenses, the sale and affixation of cigarette stamps and meter indicia (on over 300 million packages per year), the collection of taxes on other tobacco products, and the collection of taxes on alcoholic beverages. Additionally, the Department is responsible for auditing, investigating and seizing of bootlegged contraband alcoholic and tobacco products being distributed through commercial channels.

During fiscal year 1979-80, there were 4,800 packages of cigarettes confiscated by the Department of Revenue. The Department is entering into an assistance agreement with the Department of Public Safety to expand investigative and confiscation activities.

The consolidation of Luxury Tax (Tobacco) licensing with departmental licensing and consolidation of all tax stamp sales within the Department's Revenue Control Section will greatly enhance taxpayer service. Additionally, a public hearing for tax practitioners and their clients on proposed regulations was conducted to assist the Department in providing an integrated, coordinated, and uniform system of tax administration and collection for the state.

## Sources of Net Luxury Tax Revenue 1979—80*

* License Revenue = $752 or .001%

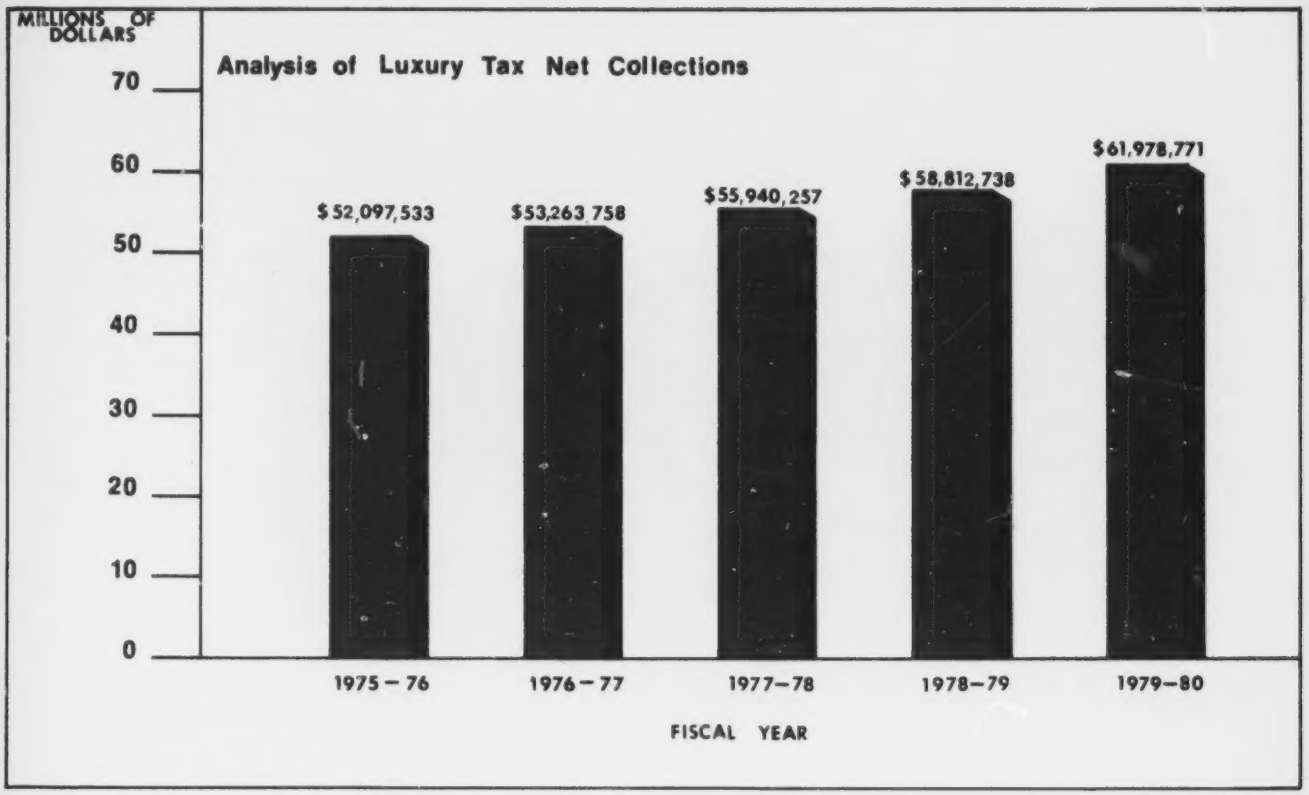
## Comparative Tax Rates of Contiguous States

| | Package Cigarettes | Gallons Spirits | Gallons Vinous | Malt |
|---|---|---|---|---|
| Arizona | .13 | 2.50 | .42 | .08 |
| California | .10 | 2.00 | .01 | .04 |
| Colorado | .10 | 2.16 | .24 | .08 |
| Nevada | .10 | 1.90 | .30 | .06 |
| New Mexico | .12 | 1.50 | .40 | .08 |
| Utah | .10 | State Stores | | .10 |
| Average Rate | .11 | 2.01 | .27 | .07 |

## Tax Rates and Change by Date on Alcoholic Beverage and Tobacco Products

| Product | Rate of Tax | | |
|---|---|---|---|
| | 3-28-62 to 3-22-68 | 3-22-68 to 7-1-74 | 7-1-74 to 1980 |
| **Liquors** | | | |
| Spirituous Liquors | | | |
| per 8 oz. container or less | $ .09 | $ .125 | $ |
| per gallon | 1.44 | 2.00 | 2.50 |
| Vinous Liquors - More than 24% alcohol | | | |
| per 8 oz. | $ .09 | $ .125 | $ |
| per gallon | 1.44 | 2.00 | 2.50 |
| Vinous Liquors - Less than 24% alcohol | | | |
| per 16 oz. container or less | $ .0525 | $ .0525 | $ .0525* |
| per gallon | .42 | .42 | .42 |
| Malt Liquor (Beer) | | | |
| per gallon | $ .08 | $ .08 | $ .08 |
| per barrel (31 gallons) | 2.48 | 2.48 | 2.48 |
| Malt Extract - per pound | .15 | .15 | .15 |
| | 6-29-65 to 3-22-68 | 3-22-68 to 7-1-74 | 7-1-74 to 1980 |
| **Tobaccos** | | | |
| Cigarettes | | | |
| Package of 20 or fractional part | $ .065 | $ .10 | $ .13 |
| Cigars | | | |
| Small cigars weighing not more than 3 lbs. per M, package of 20 or less | $ .02 | $ .02 | $ .02 |
| Selling for 5¢ or less, each cigar | .00333 | .00333 | .00333 |
| Selling for more than 5¢, each cigar | .01 | .01 | .01 |
| Smoking tobacco, snuff, fine cut, chewing, etc. - per oz. | .01 | .01 | .01 |
| Cavendish, plug & twist - per oz. | $ .0025 | $ .0025 | $ .0025 |

*As of July 21, 1979, HB 2064 provides that tax on vinous liquor be levied at the rate of .42 per gallon and at a proportionate rate for any lesser or greater quantity.




## Analysis of Luxury Tax Net Collections

| Source | 1975-76 | 1976-77 | 1977-78 | 1978-79 | 1979-80 | Percent of Collections in 1979-80 |
|---|---|---|---|---|---|---|
| Spirituous Liquor | | | | | | |
| Gross Revenue | $10,516,324 | $10,783,102 | $11,651,750 | $12,684,041 | $13,227,227 | |
| Refunds and Charge-offs | -0- | -0- | -0- | -0- | -0- | |
| Net | 10,516,324 | 10,783,102 | 11,651,750 | 12,684,041 | 13,227,227 | 21.34% |
| Vinous Liquor | | | | | | |
| Gross Revenue | 1,823,873 | 1,895,699 | 2,073,566 | 2,361,719 | 2,480,932 | |
| Refunds and Charge-offs | -0- | -0- | -0- | -0- | -0- | |
| Net | 1,823,873 | 1,895,699 | 2,073,566 | 2,361,719 | 2,480,932 | 4.00% |
| Malt Liquor | | | | | | |
| Gross Revenue | 4,799,293 | 5,100,868 | 5,424,077 | 6,009,779 | 6,386,712 | |
| Refunds and Charge-offs | -0- | -0- | -0- | -0- | -0- | |
| Net | 4,799,293 | 5,100,868 | 5,424,077 | 6,009,599 | 6,386,712 | 10.22% |
| Tobacco - All Types | | | | | | |
| Gross Revenues | 35,132,747 | 35,683,918 | 38,005,160 | 38,977,667 | 41,232,502 | |
| Refunds/Charge-offs | 175,379 | 200,347 | 1,214,943 | 1,221,881 | 1,349,354 | |
| Licensing | 675 | 518 | 647 | 1,593 | 752 | |
| Net | 34,958,043 | 35,484,089 | 36,790,864 | 37,757,379 | 39,883,900 | 64.35% |
| Total Revenue | $52,097,533 | $53,263,758 | $55,940,257 | $58,812,738 | $61,978,771 | 100.0% |

# Sales and Use Tax Audit Section

During this past year the Sales & Use Tax Audit Section initiated a comprehensive training program for new members of the field auditing staff. The training sessions included such subjects as law, auditing techniques and policy and procedures of the Department of Revenue. The program will eventually be expanded to include advanced auditors in order to help them meet the needs for an increasingly complex and expanded audit program.

This Section also initiated a procedure for issuing "tax rulings" on topics needing clarification. The rulings will have the effect of establishing and/or delineating the Department's official position on various issues.

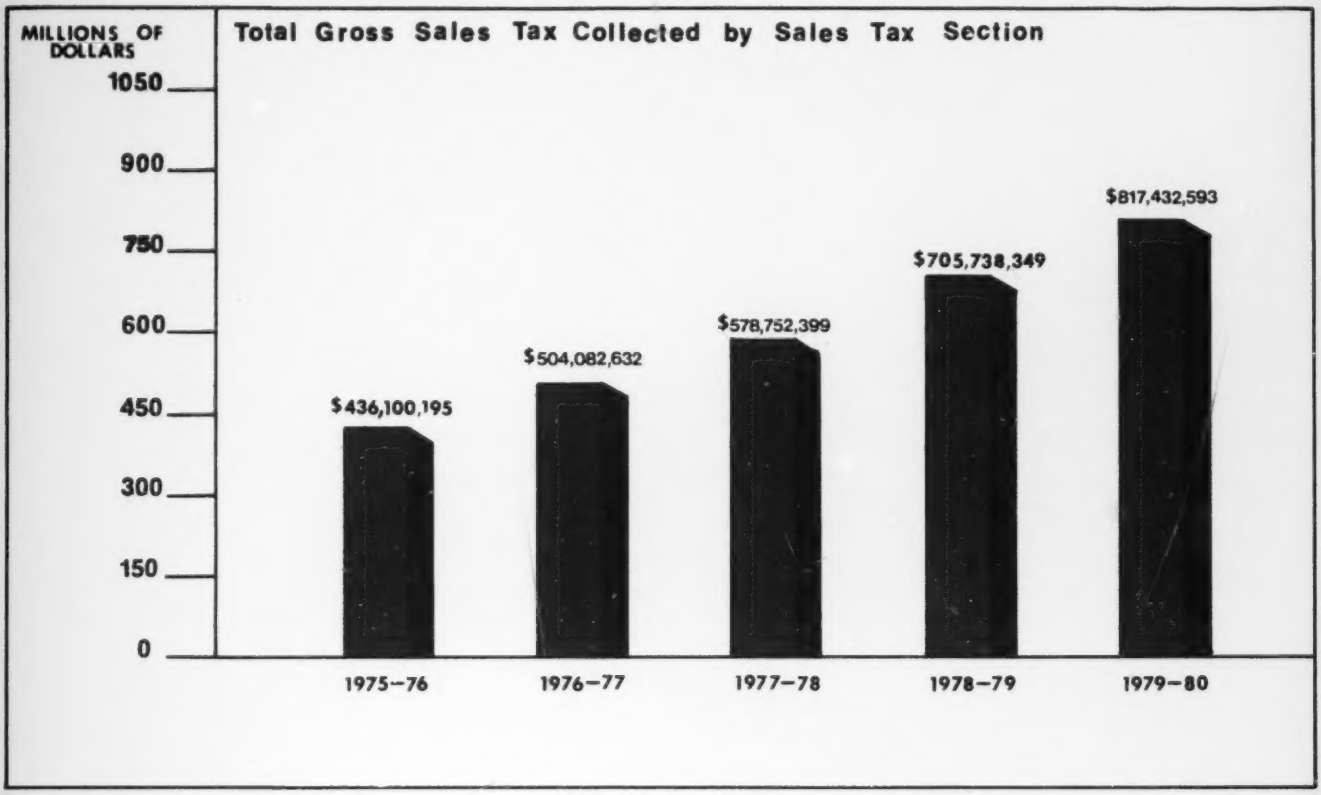
A management information report was also implemented. Its purpose is to measure, classify and monitor audits conducted through the fiscal year and to recap the findings in a comprehensive weekly report.

A summary of the report appears in the following table:

Audit Performance Summary

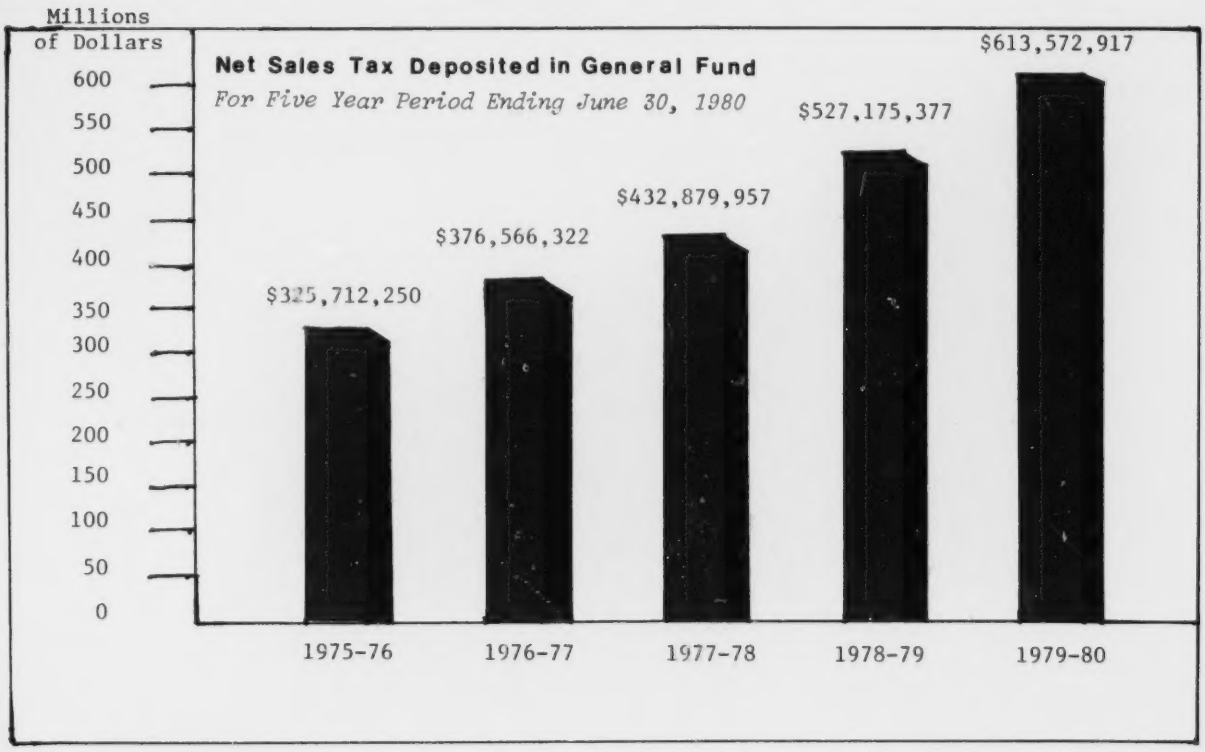
| | 1978-79 | 1979-80 |
|---|---|---|
| Audits Conducted | 1,698 | 1,409 |
| Assessments | $14,700,000 | $13,570,000 |
| Average Assessment per Audit | $ 8,657 | $ 9,630 |

The decline in the number of audits is due to two factors: First, twelve auditors were on special assignment for three months to audit sales tax accounts receivable files in preparation for placing them on the mechanized Burroughs system. This entailed auditing all files for an account and preparing a detailed statement which was sent to the taxpayer at the start of the new system. Secondly, the change on production is related to a shift in audit emphasis.



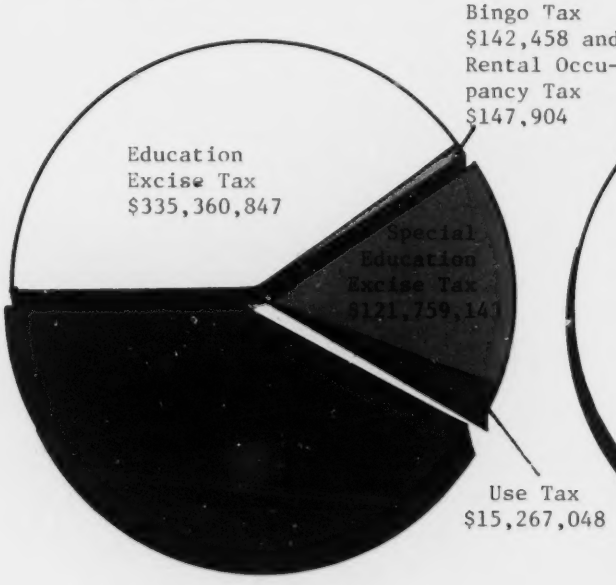

## Analysis of Gross Sales Tax Collected

| Source | 1975-76 | 1976-77 | 1977-78 | 1978-79 | 1979-80 |
|---|---|---|---|---|---|
| Transaction Privilege Tax | $187,536,545 | $216,049,456 | $247,838,898 | $302,812,573 | $344,755,193 |
| Education Excise | 181,085,020 | 208,981,016 | 240,826,672 | 292,999,847 | 335,360,847 |
| Special Education | 59,996,809 | 69,778,747 | 81,151,553 | 98,985,428 | 121,759,143 |
| Use | 7,204,281 | 8,997,174 | 8,647,600 | 10,657,575 | 15,267,048 |
| Bingo | 82,788 | 96,394 | 118,114 | 127,072 | 142,458 |
| Rental Occupancy | 194,752 | 179,845 | 169,562 | 155,854 | 147,904 |
| TOTAL | $436,100,195 | $504,082,632 | $578,752,399 | $705,738,349 | $817,432,593 |



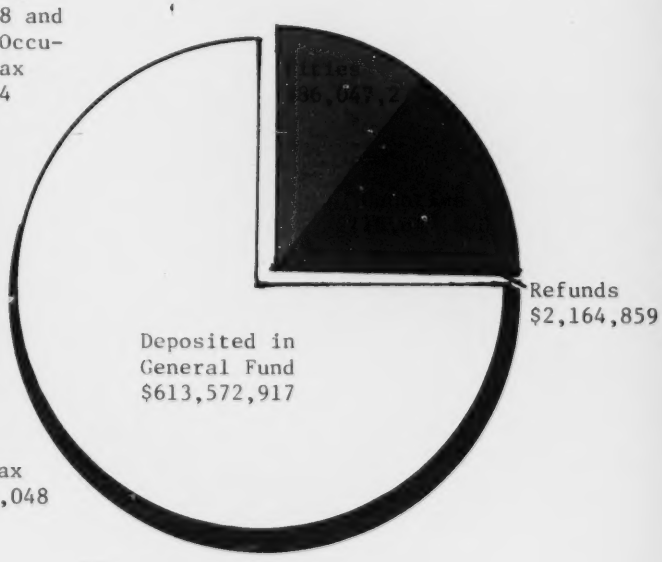

**Total Sales Tax Collections**

$817,432,593


Education Excise Tax $335,360,847
Bingo Tax $142,458 and Rental Occupancy Tax $147,904
Special Education Excise Tax $121,759,141
Use Tax $15,267,048

**Total Sales Tax Distributions**

$817,432,593



## Analysis of Distribution of State Sales Tax Collections ($201,694,817)

*For Fiscal Year 1979-80*

| COUNTY/CITY | AMOUNT | % TO TOTAL DISTRIBUTION* |
|---|---|---|
| APACHE | | |
| Eagar | $ 99,595.84 | .1158 |
| Springerville | 58,583.93 | .0679 |
| St. Johns | 93,314.38 | .1084 |
| COCHISE | | |
| Benson | 173,219.71 | .2014 |
| Bisbee | 422,809.66 | .4916 |
| Douglas | 632,583.45 | .7356 |
| Huachuca City | 85,835.41 | .0998 |
| Sierra Vista | 1,021,384.18 | 1.1876 |
| Tombstone | 63,012.75 | .0732 |
| Willcox | 137,246.04 | .1596 |
| COCONINO | | |
| Flagstaff | 1,592,410.61 | 1.8516 |
| Fredonia | 40,505.15 | .0471 |
| Page | 277,100.35 | .3477 |
| Williams | 121,127.86 | .1408 |
| GILA | | |
| Globe | 372,237.58 | .4328 |
| Hayden | 65,127.69 | .0757 |
| Miami | 172,273.20 | .2003 |
| Payson | 146,704.08 | .1705 |
| Winkleman | 49,431.56 | .0574 |
| GRAHAM | | |
| Pima | 73,193.65 | .0851 |
| Safford | 301,883.53 | .3510 |
| Thatcher | 145,492.28 | .1691 |
| GREENLEE | | |
| Clifton | 258,214.84 | .3002 |
| Duncan | 39,243.46 | .0456 |
| MARICOPA | | |
| Avondale | 336,371.87 | .3911 |
| Buckeye | 131,911.11 | .1534 |
| Chandler | 1,016,975.62 | 1.1825 |
| El Mirage | 198,444.62 | .2307 |
| Gila Bend | 91,104.56 | .1059 |
| Gilbert | 182,877.21 | .2126 |
| Glendale | 3,416,185.77 | 3.9724 |
| Goodyear | 118,811.73 | .1381 |
| Guadalupe | 217,510.90 | .2529 |
| Mesa | 5,114,938.44 | 5.9477 |
| Paradise Valley | 462,977.71 | .5383 |
| Peoria | 393,805.81 | .4579 |
| Phoenix | 134,096,318.13 | 39.6278 |
| Scottsdale | 3,962,739.20 | 4.6079 |
| Surprise | 168,659.20 | .1960 |
| Tempe | 4,765,666.74 | 5.5416 |
| Tolleson | 196,988.94 | .2290 |
| Wickenburg | 147,614.43 | .1717 |
| Youngtown | 95,730.87 | .1113 |
| MOHAVE | | |
| Kingman | 407,357.97 | .4736 |
| Lake Havasu City | 686,482.29 | .7982 |
| NAVAJO | | |
| Holbrook | 258,538.86 | .3006 |
| Show Low | 171,498.76 | .1993 |

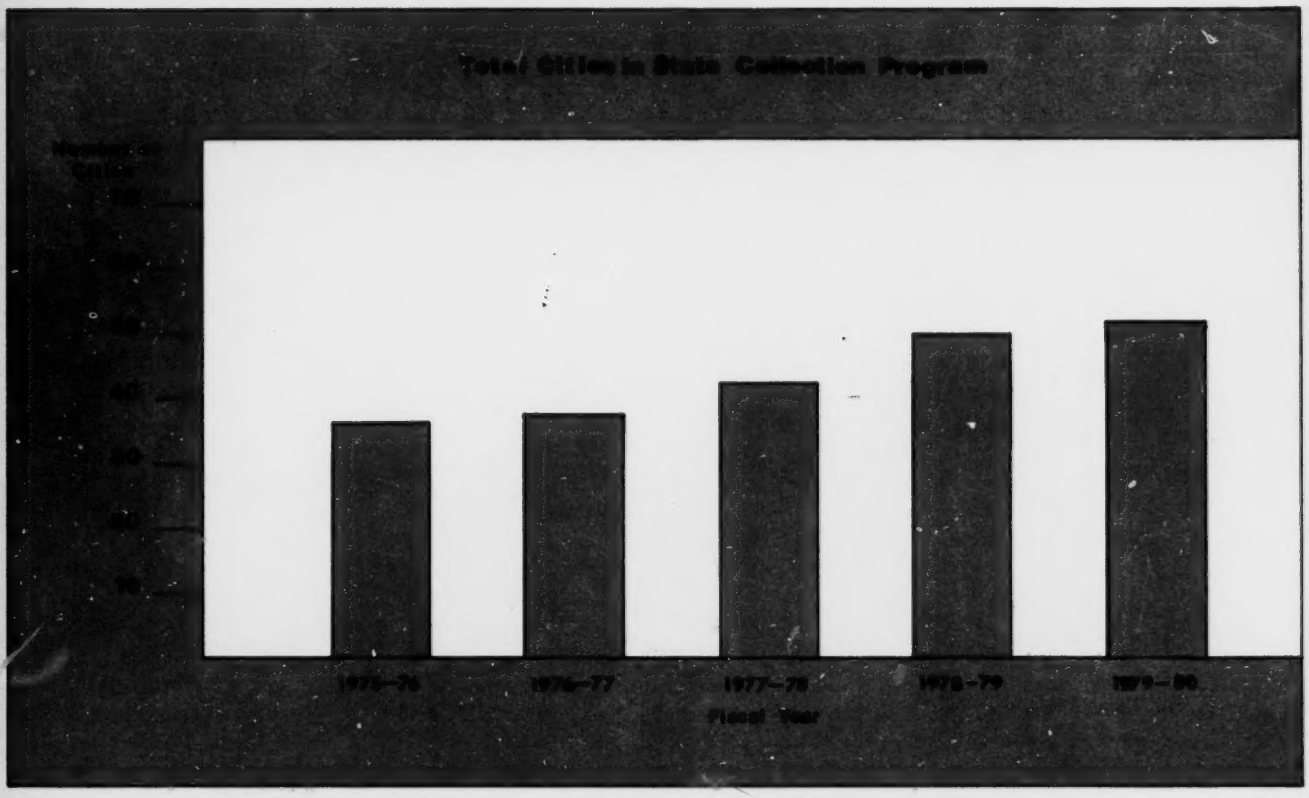
| COUNTY/CITY | AMOUNT | % TO TOTAL DISTRIBUTION |
|---|---|---|
| NAVAJO | | |
| Snowflake | $ 130,620.41 | .1518 |
| Taylor | 76,198.16 | .0886 |
| Winslow | 409,423.04 | .4761 |
| PIMA | | |
| Marana | 74,629.09 | .0867 |
| Oro Valley | 59,836.12 | .0695 |
| South Tucson | 315,757.33 | .3671 |
| Tucson | 15,617,932.29 | 18.1610 |
| PINAL | | |
| Apache Junction | 515,270.71 | .5991 |
| Casa Grande | 690,261.20 | .8026 |
| Coolidge | 340,674.24 | .3961 |
| Eloy | 327,605.81 | .3832 |
| Florence | 148,511.10 | .1727 |
| Kearny | 143,606.41 | .1669 |
| Mammoth | 103,660.30 | .1205 |
| Superior | 255,232.84 | .2967 |
| SANTA CRUZ | | |
| Nogales | 540,676.87 | .6195 |
| Patagonia | 31,963.95 | .0371 |
| YAVAPAI | | |
| Chino Valley | 74,487.78 | .1192 |
| Clarkdale | 82,210.84 | .0629 |
| Cottonwood | 182,247.51 | .2119 |
| Jerome | 14,727.14 | .0171 |
| Prescott | 735,813.87 | .9968 |
| Prescott Valley | 213,121.50 | .1066 |
| YUMA | | |
| Parker | 98,878.43 | .1149 |
| Somerton | 157,158.52 | .1827 |
| Wellton | 49,080.21 | .0570 |
| Yuma | 1,541,316.84 | 1.7756 |
| San Luis | 10,384.50 | .0121 |

### Distributions of Sales Tax Collections

*For 1979-80 by County*

| COUNTY | Amount | % Total |
|---|---|---|
| Apache | $ 1,035,169.80 | .2922 |
| Cochise | 2,991,545.22 | 2.9491 |
| Coconino | 4,171,622.74 | 2.3874 |
| Gila | 2,242,675.53 | .9370 |
| Graham | 676,277.50 | .6053 |
| Greenlee | 1,814,945.40 | .3459 |
| Maricopa | 62,776,695.05 | 64.0698 |
| Mohave | 2,674,517.30 | 1,2720 |
| Navajo | 3,992,834.68 | 1.2166 |
| Pima | 21,727,066.07 | 18.6845 |
| Pinal | 4,267,465.47 | 2.9383 |
| Santa Cruz | 850,258.78 | .6567 |
| Yavapai | 3,171,755.94 | 1.5147 |
| Yuma | 3,254,710.72 | 2.1304 |
| TOTAL | $115,647,540.20 | 100.00 |

* The percentage of revenue received by each city or town is based on population.

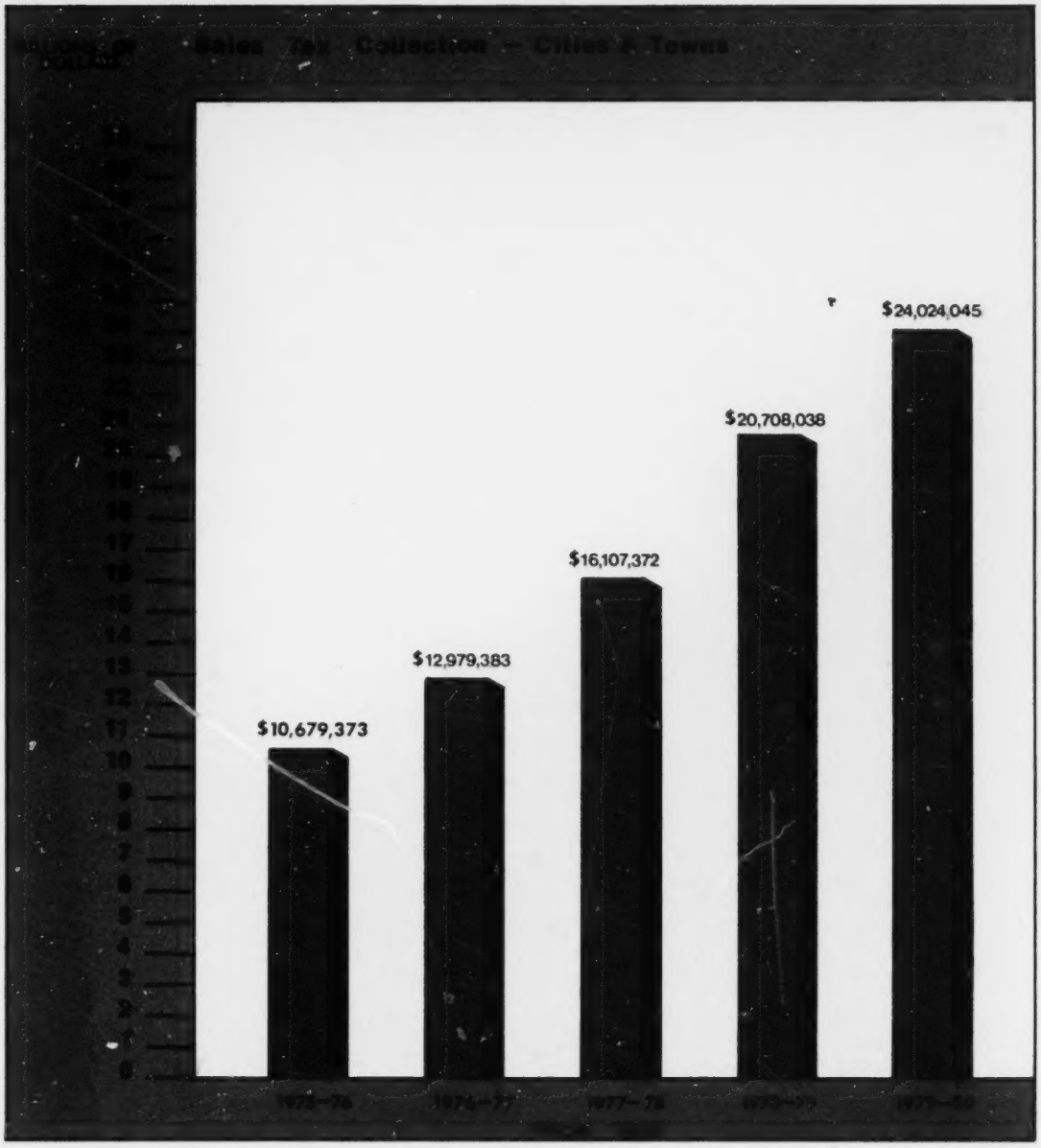


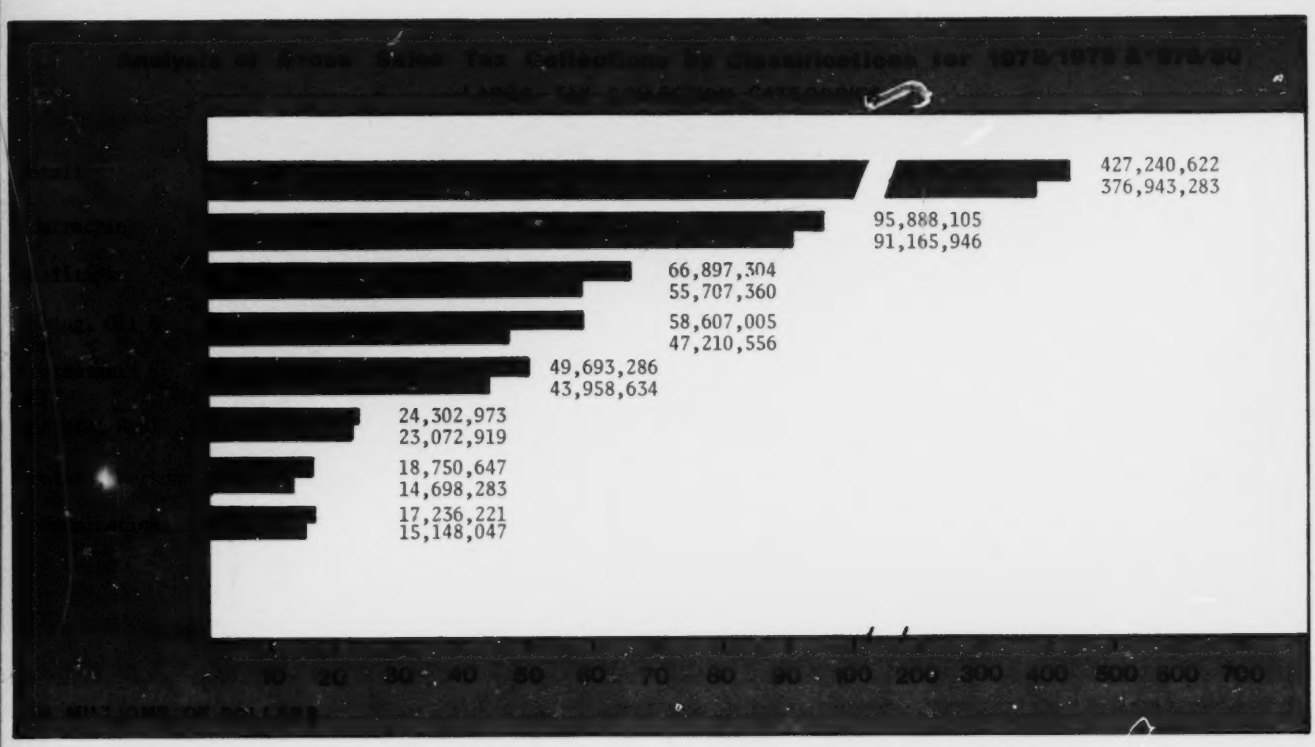

## Cities Sales Tax Program

Since 1973, Arizona cities and towns have been able to contract with the Department of Revenue for a sales tax program administered by the Sales Tax Section. The contract authorizes the Department to collect the city sales tax, perform city audits, make collection calls on delinquent city accounts and to remit the amount collected to the cities in the program.

Two additional cities joined the program this year, bringing the total to fifty-two cities now participating in the program. Ten members representing all of the cities meet monthly with a staff member of the Sales Tax Section to formulate programs providing for city-state cooperation in auditing businesses. The results are then shared with all of the program members. The goal of the program is to increase tax receipts in the most efficient manner for taxpayers in the participating cities. In 1979, the Department collected on behalf of the fifty-two cities and towns, a total of $24,024,044.

# Profile of Cities' Sales Tax Collection Program Administered by the Revenue Department



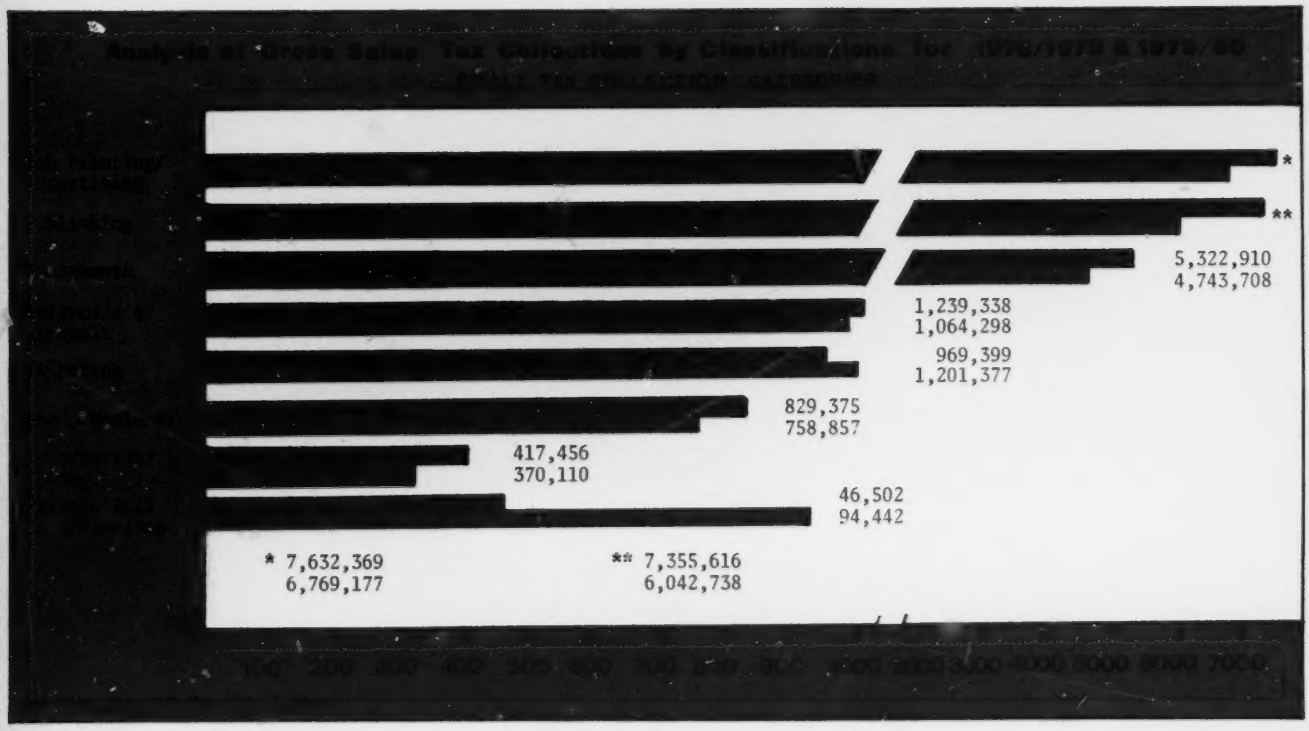



1979-80 ■

1978-79 ■

This analysis does not include Use, Bingo or Rental Occupancy components of Gross Sales Tax Collections

| | |
|---|---|
| Gross Sales Tax Collected | $ 785,942,823 |
| Penalty & Interest Collected | 3,487,674 |
| Licenses, Fees Collected | 26,021 |
| | $ 789,456,518 |



DISTRIBUTION OF CURRENT SALES TAX RATES

Taxable Activities and Percentage of Tax Rate Effective July 1, 1974

| Taxable Activities | Privilege Tax | Education Excise Tax | Spec. Educ. Excise Tax | Combined Tax |
|---|---|---|---|---|
| Mining-Oil & Gas Production | 1% | 1/2% | 1% | 2-1/2% |
| Transporting & Towing | 1% | 1% | 2% | 4% |
| Utilities | 1% | 1% | 2% | 4% |
| Communications | 1% | 1% | 2% | 4% |
| Railroads & Aircraft | 1% | 1% | 2% | 4% |
| Publishing | 1% | 1% | 2% | 4% |
| Printing & Advertising | 1% | 1% | 2% | 4% |
| Private Car/Pipelines | 1% | 1% | 2% | 4% |
| Contracting | 1% | 1% | 2% | 4% |
| Timbering | 1% | 1/2% | - | 1-1/2% |
| Restaurants & Bars | 2% | 2% | - | 4% |
| Amusements | 2% | 2% | - | 4% |
| Rentals of Real Property | 2% | 1% | - | 3% |
| Rentals of Personal Property | 2% | 2% | - | 4% |
| Feed Wholesale | 1/4% | 1/8% | - | 3/8% |
| Retail | 2% | 2% | - | 4% |

## COLLECTIONS FOR FISCAL YEAR 1979-80 FOR CITIES AND TOWNS IN THE STATE COLLECTION PROGRAM

| | | | |
|---|---|---|---|
| Apache Junction | $ 450,207.11 | Oro Valley | $ 23,151.53 |
| Bisbee | 400,906.76 | Page | 359,248.96 |
| Buckeye | 222,640.56 | Paradise Valley | 415,200.75 |
| Casa Grande | 1,053,116.25 | Parker | 320,898.21 |
| Clifton | 128,990.19 | Payson | 373,723.35 |
| Coolidge | 353,472.37 | Prescott Valley | 106,904.66 |
| Cottonwood | 427,927.29 | Safford | 665,967.35 |
| Douglas | 1,337,706.48 | *San Luis | 83,385.16 |
| Duncan | 50,582.58 | Show Low | 410,379.60 |
| Eagar | 47,634.23 | Sierra Vista | 1,071,638.56 |
| El Mirage | 141,731.15 | Snowflake | 94,625.72 |
| Eloy | 186,717.03 | Somerton | 53,295.69 |
| Fredonia | 19,285.60 | South Tucson | 767,350.04 |
| Gila Bend | 178,255.45 | Springerville | 325,369.24 |
| Gilbert | 144,813.85 | St. Johns | 134,576.40 |
| Glendale | 5,997,677.12 | Surprise | 24,951.74 |
| Globe | 489,077.41 | Thatcher | 132,940.90 |
| Goodyear | 379,955.79 | Tolleson | 77,627.48 |
| Guadalupe | 41,250.32 | Tombstone | 104,899.80 |
| Holbrook | 847,148.08 | Wellton | 63,127.84 |
| Huachuca City | 24,843.95 | Wickenburg | 318,611.17 |
| Jerome | 19,224.83 | Willcox | 259,689.51 |
| Kearny | 73,675.10 | Williams | 320,093.78 |
| Kingman | 946,159.85 | Winslow | 425,345.49 |
| *Marana | 27,889.29 | Youngtown | 170,076.96 |
| Miami | 69,553.25 | Yuma | 2,860,522.89 |
| | | TOTAL | $ 24,024,044.67 |

* Entered State Tax Collection Program for collection of city sales tax during fiscal year 1979-80.

# Collections

The Collections function has been consolidated in one section to allow concurrent collection action for sales, use, income and withholding taxes. Additionally, a mechanized accounts receivable system was put into full effect, consolidating all sales and use tax receivables. Three complete billing cycles were accomplished during the 1979-80 fiscal year with a total of 41,000 billings mailed out. This has resulted in approximately $3.9 million paid on account. Field collectors made 41,995 taxpayer contacts resulting in $6.6 million collected.

During the last half of this fiscal year, voucher collections alone increased $2.6 million over the same period during the last fiscal year prior to these accounts receivable system changes.

Steps have been taken to implement a phone power collection unit to provide contact with taxpayers by phone prior to referral to field collectors. This will help to cut down the number of accounts to be contacted by field collectors, allowing them to concentrate on the hard-core, large dollar delinquencies. One phone collector was utilized this past fiscal year concentrating on the area of corporate income tax assessments. Contacts with 2,978 taxpayers were made via telephone resulting in collections of $726,000.

Another innovation initiated this year was that liquor complaints are filed with the Liquor Board on accounts reflecting a delinquency which have required liquor licenses. This action blocks the transfer of licenses until such delinquencies are cleared up. The Liquor Section of the Collections Unit filed a total of 718 complaints, resulting in collections of approximately $519,000. These complaints are an effective collection measure for delinquent sales and use taxes.

The Collections Unit also used liens as a collection measure. During the 1979-80 fiscal year there were 1,444 liens filed with county recorders offices securing real property. There was a total of $1,221,624 collected on liened accounts. For the 1980-81 fiscal year, the

effectiveness of the collection process will be aided by the implementation of Personal Property liens, which are filed with the Secretary of State's Office.

# Special Collections and Compliance Unit

The Special Collections and Compliance Unit was created in 1978 to provide the Department with an administrative enforcement program for the collection of taxes. Severely delinquent cases that cannot be resolved through the ordinary collection process are referred to the Unit for collection by distraint methods including seizure, sale of property and levy on bank accounts, and wages. During the fiscal year ending June 30, 1980, the Unit collected $1,050,000.

In October of 1979 the Unit also acquired responsibility for the consolidation bankruptcy function including the filing of claims and the auditing of bankrupt taxpayers' records. In the past, this function was split between the Income & Withholding Tax Section and the Sales Tax Section. The consolidation is expected to greatly simplify the Department's bankruptcy procedure, especially in the area of claim follow-up.

Effective July 31, 1980, the Unit will operate under a consolidated statutory authority passed during the last legislative session. Authority to collect the various taxes has been combined under Title 42. This change will streamline the Unit's enforcement effort by allowing standardization of forms and procedures. Other favorable legislative changes affecting the Unit's operation beginning July 31, 1980, include a provision for a continuous wage levy and the clarification of exemptions and of authority to seize intangibles. Increased collections are expected due to these changes.

# Property and Special Taxes Division

The Division of Property and Special Taxes, in conjunction with the respective County Assessors, is responsible for the administration of the property tax assessment system.

In Arizona the property tax is an ad valorem tax, or tax upon the full cash (market) value of property. It is a major source of revenue for local government operations, including county governments and schools. A state property tax is also levied, the proceeds of which are earmarked for special education.

Duties for appraisal of property for ad valorem tax purposes are divided between State and County agencies as follows:

A. Division of Property and Special Taxes appraises the "centrally valued" properties, such as utilities, railroads, producing mines, and other complex or geographically dispersed properties. Values determined by the Division for those properties are transmitted to the County Board of Supervisors for entry upon the county tax rolls for levy and collection of property taxes.

B. County Assessors, utilizing standards established by the Division, are responsible for appraisal of most classes of property, including residential, commercial and industrial, and agricultural properties.

The Division establishes assessment standards, provides technical appraisal assistance to County Assessors, and monitors assessment performance to maintain uniform and equitable appraisal and assessment practices. Also, the Division coordinates data processing services for preparation and maintenance of tax rolls, which are provided by the Department under contract with several of the counties.

Airline flight property and property of private car companies are also appraised by the Division. Property taxes levied on these properties are collected by the Department of Revenue and deposited in the State General Fund.

## Past Year Activities

The efforts of the Division were directed towards three major activities during the 1979-80 fiscal year: The appraiser education program, the audit of centrally valued properties, and the implementation of the new property tax legislation.

The appraiser education program, begun during the 1978-79 fiscal year, was accelerated to provide training and certification to county and state appraisers. During the year, 33 courses were conducted with 433 people in attendance. Basic certification was awarded to 245 appraisers. Beginning July 1, 1980, no person (except elected officials) may perform appraiser work for a county unless he has received certification.

The Legislature provided the Centrally Valued Properties Section with funding for an audit unit during the 1978-79 fiscal year. During the 1979-80 fiscal year, this unit was staffed and became operational. Accomplishments include the following:

1. Audits in one industry discovered noncompliance reporting due to an industry-wide misinterpretation of Arizona Statutes. Revision of the reports resulted in an increase in full cash value of 134% for the entire industry.

2. A statistical survey of water utilities led to revised forms for reporting purposes. These revisions have led to more accurate reporting and appraisals.

3. The unit provided audit verification of capitalization rate studies.

4. Corollary information sources were developed through other federal, state, and local agencies to determine compliance reporting.

Major portions of the property tax laws were changed as a result of the Legislature's Special Session on taxation, which ended in April (and is discussed in detail in a later section of this report). Since portions of the law are effective for the 1980 tax year, emphasis was placed on analyzing and implementing the new laws. Guidelines were issued to county assessors concerning potential problem areas and new procedures.

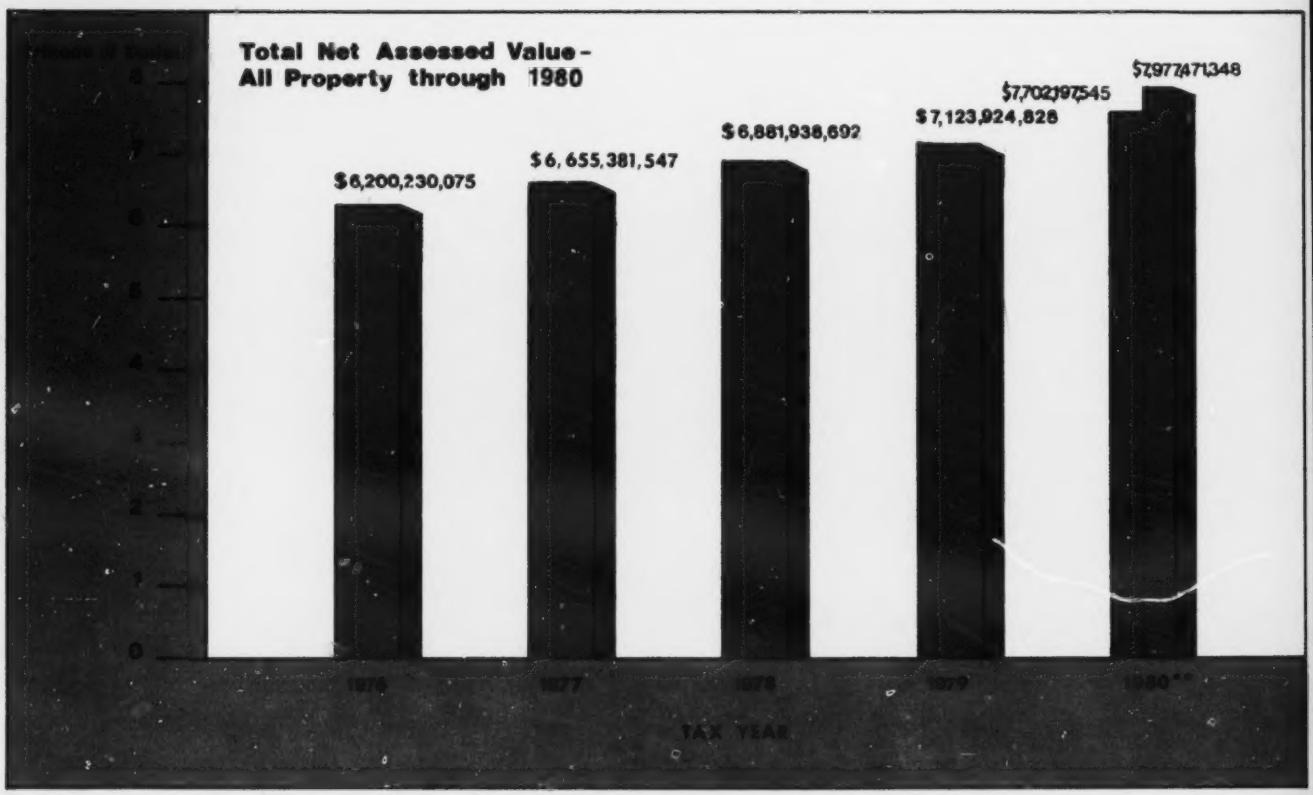
Such subjects as calculations of limited values in various situations, calculation of assessments and taxes, method for filing and calculation of exemptions, and expense reimbursement were discussed. New forms were developed to reflect the two types of values and taxes including the new Notice of Full Cash Value which was mailed to owners of residential property and a new tax bill which will be issued in August. Considerable computer reprogramming was performed in order to generate the new values and taxes as required by the new laws.

# Comparative Statistical Data for Fiscal Year 1980-81*
## Demographic – Assessed Valuation – Property Tax Levy

| Source | Number of Residents | Percentage of State Population | Secondary Assessed Valuation | Primary Assessed Valuation | Total Property Tax Levied 1979-1980 | Percent of Property Tax Levied |
|---|---|---|---|---|---|---|
| Apache | 48,500 | 1.80 | $ 128,297,013 | $ 127,177,757 | $ 8,390,397 | 1.02 |
| Cochise | 84,400 | 3.12 | 236,275,330 | 232,107,224 | 21,318,006 | 2.59 |
| Coconino | 85,700 | 3.17 | 349,603,220 | 345,994,249 | 22,314,520 | 2.72 |
| Gila | 36,600 | 1.36 | 159,790,284 | 157,983,954 | 16,144,249 | 1.96 |
| Graham | 22,600 | .84 | 46,868,879 | 46,035,000 | 4,215,945 | .51 |
| Greenlee | 12,000 | .44 | 150,700,656 | 149,624,648 | 6,141,977 | .75 |
| Maricopa | 1,490,100 | 55.17 | 3,994,223,482 | 3,822,449,353 | 406,197,915 | 49.44 |
| Mohave | 50,900 | 1.88 | 222,041,059 | 217,473,551 | 23,854,270 | 2.90 |
| Navajo | 75,800 | 2.81 | 380,074,513 | 376,575,297 | 26,532,140 | 3.23 |
| Pima | 539,800 | 19.98 | 1,439,932,256 | 1,385,811,424 | 191,511,736 | 23.31 |
| Pinal | 92,500 | 3.42 | 318,106,298 | 311,151,296 | 36,165,117 | 4.40 |
| Santa Cruz | 20,100 | .76 | 56,143,141 | 52,035,797 | 6,665,476 | .82 |
| Yavapai | 62,400 | 2.31 | 268,612,846 | 256,603,861 | 27,930,876 | 3.40 |
| Yuma | 79,500 | 2.94 | 226,802,371 | 221,174,134 | 24,213,418 | 2.95 |
| TOTAL | 2,750,900 | 100.00 | $7,977,471,348 | $7,702,197,545 | $821,596,042 | 100.00 |

* Property Tax Year 1980 corresponds to Fiscal Year 1980-81

1 Source: Population Projections, Arizona Department of Economic Security
2 Source: U.S. Bureau of Census 1970




## Net Assessed Valuations By Counties

| COUNTY | 1976 | 1977 | 1978 | 1979* | 1980** Primary | 1980** Secondary |
|---|---|---|---|---|---|---|
| Apache | $ 53,296,278 | $ 59,693,802 | $ 86,449,215 | $ 97,298,829 | $ 127,177,757 | $ 128,297,013 |
| Cochise | 171,977,560 | 195,376,159 | 222,816,077 | 214,995,400 | 232,107,224 | 236,275,330 |
| Coconino | 339,743,167 | 358,642,549 | 348,487,490 | 325,302,908 | 345,994,249 | 349,603,220 |
| Gila | 160,816,706 | 167,485,427 | 151,106,756 | 140,495,120 | 157,983,954 | 159,790,234 |
| Graham | 40,858,488 | 45,258,387 | 46,101,962 | 41,390,261 | 46,035,000 | 46,868,879 |
| Greenlee | 205,012,531 | 195,789,264 | 153,731,370 | 139,096,855 | 149,624,648 | 150,700,656 |
| Maricopa | 2,844,314,021 | 3,058,514,752 | 3,321,826,293 | 3,553,963,241 | 3,822,449,353 | 3,994,223,482 |
| Mohave | 191,807,847 | 200,579,982 | 202,754,985 | 192,838,544 | 217,473,551 | 222,041,059 |
| Navajo | 195,957,686 | 234,211,348 | 293,006,468 | 340,266,933 | 376,575,297 | 380,074,513 |
| Pima | 1,248,111,040 | 1,325,048,027 | 1,288,998,388 | 1,303,604,598 | 1,385,811,424 | 1,439,932,256 |
| Pinal | 317,255,017 | 334,297,723 | 286,524,295 | 287,389,369 | 311,151,296 | 318,106,298 |
| Santa Cruz | 51,887,428 | 51,836,735 | 48,239,134 | 46,525,439 | 52,035,797 | 56,143,141 |
| Yavapai | 190,065,470 | 223,223,582 | 225,543,090 | 233,609,247 | 256,603,861 | 268,612,846 |
| Yuma | 189,126,836 | 205,423,810 | 206,353,169 | 207,148,084 | 221,174,134 | 226,802,371 |
| STATE TOTAL | $6,200,230,075 | $6,655,381,547 | $6,881,938,692 | $7,123,924,828 | $7,702,197,545 | $7,977,471,348 |

* The 1979 tax rates were applied to adjusted net assessed valuation. Adjusted net assessed valuation is derived by dividing the net assessed valuation by a factor of 1.15; Laws 1979, Chapter 153, Section 6.

** Beginning with the annual year 1980, Total Net Assessed Value is categorized into two classifications - Primary and Secondary, as reflected above in the bifurcated bar graph for 1980.

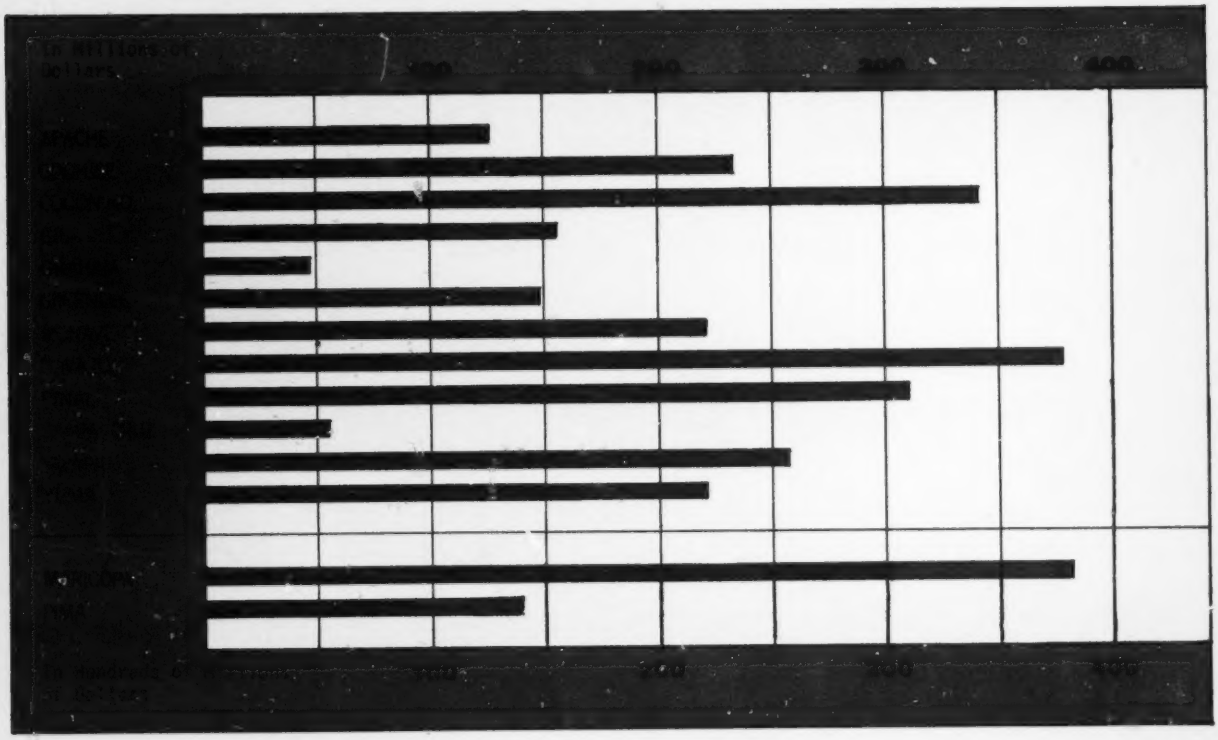
# Summary of Tax Levies for 1980

| | ASSESSED VALUATION PRIMARY | ASSESSED VALUATION SECONDARY | STATE | COUNTY | CITIES & TOWNS | COMMUNITY COLLEGES | SCHOOLS* | SPECIAL DISTRICTS | TOTAL |
|---|---|---|---|---|---|---|---|---|---|
| Apache | $ 127,177,757 | $ 128,297,013 | $ 1,589,722 | $ 838,685 | $ -0- | $ -0- | $ 5,900,471 | $ 61,519 | $ 8,390,397 |
| Cochise | 232,107,224 | 236,275,330 | 2,901,340 | 6,664,658 | 591,265 | 3,267,094 | 7,227,760 | 685,889 | 21,318,006 |
| Coconino | 345,994,249 | 349,603,220 | 4,324,928 | 1,197,489 | 1,719,424 | -0- | 14,291,853 | 780,826 | 22,314,520 |
| Gila | 157,983,954 | 159,790,284 | 1,974,799 | 5,536,653 | 648,229 | -0- | 7,630,175 | 354,393 | 16,144,249 |
| Graham | 46,035,000 | 46,868,879 | 575,438 | 1,206,114 | 63,527 | 623,641 | 1,686,103 | 61,122 | 4,215,945 |
| Greenlee | 149,624,648 | 150,700,656 | 1,870,308 | 885,123 | 3,964 | -0- | 3,379,582 | 3,000 | 6,141,977 |
| Maricopa | 3,822,449,353 | 3,994,223,482 | 47,780,616 | 75,647,170 | 42,920,861 | 35,365,756 | 186,496,200 | 17,987,312 | 406,197,915 |
| Mohave | 217,473,551 | 222,041,059 | 2,718,419 | 5,849,275 | 728,000 | 1,975,406 | 10,857,485 | 1,725,685 | 23,854,270 |
| Navajo | 376,575,297 | 380,074,513 | 4,707,191 | 4,991,124 | 325,867 | 2,311,200 | 12,836,441 | 1,360,317 | 26,532,140 |
| Pima | 1,385,811,424 | 1,439,932,256 | 17,305,955 | 70,419,718 | 6,647,142 | 12,345,390 | 78,260,715 | 6,532,816 | 191,511,736 |
| Pinal | 311,151,296 | 318,106,298 | 3,889,391 | 11,604,281 | 728,006 | 4,535,407 | 14,407,513 | 1,000,519 | 36,165,117 |
| Santa Cruz | 52,035,797 | 56,143,141 | 650,447 | 1,794,590 | -0- | -0- | 4,079,615 | 140,824 | 6,665,476 |
| Yavapai | 256,603,861 | 268,612,846 | 3,207,548 | 6,075,456 | 543,663 | 3,931,854 | 13,023,394 | 1,148,961 | 27,930,876 |
| Yuma | 221,174,134 | 226,802,371 | 2,764,677 | 3,574,132 | 1,546,475 | 3,658,630 | 12,121,120 | 548,384 | 24,213,418 |
| TOTAL | $7,702,197,545 | $7,977,471,348 | $ 96,260,779 | $196,264,468 | $56,466,423 | $68,014,378 | $372,198,427 | $32,391,567 | $821,596,042 |

Average State Tax Rate: $10.60 per $100 of Assessed Valuation

* Includes Unorganized School Districts

# Comparison of Centrally Valued (Department) and Locally Assessed (Assessor) Properties by Counties



DEPARTMENT VALUED
ASSESSOR VALUED

| COUNTY | ASSESSOR-VALUED* | DEPARTMENT-VALUED* | TOTAL |
|---|---|---|---|
| Apache | $ 26,859,342 | $ 100,318,415 | $ 127,177,757 |
| Cochise | 109,729,224 | 122,378,000 | 232,107,224 |
| Coconino | 129,478,193 | 216,516,056 | 345,994,249 |
| Gila | 58,282,819 | 99,701,135 | 157,983,954 |
| Graham | 34,446,952 | 11,588,048 | 46,035,000 |
| Greenlee | 13,844,782 | 135,779,866 | 149,624,648 |
| Mohave | 139,187,743 | 78,285,808 | 217,473,551 |
| Navajo | 85,581,100 | 290,994,197 | 376,575,297 |
| Pinal | 121,527,696 | 189,623,600 | 311,151,296 |
| Santa Cruz | 39,643,277 | 12,392,520 | 52,035,797 |
| Yavapai | 145,206,920 | 111,396,941 | 256,603,861 |
| Yuma | 159,537,730 | 61,636,404 | 221,174,134 |
| Subtotal | 1,063,325,778 | 1,430,610,990 | 2,493,936,768 |
| Maricopa | 3,001,843,516 | 820,605,837 | 3,822,449,353 |
| Pima | 920,753,638 | 465,057,786 | 1,385,811,424 |
| TOTAL | $4,985,922,932 | $2,716,274,613** | $7,702,197,545 |
| PERCENT | 64.13 | 35.27 | 100.00 |

* Primary Assessment
** Does not include Salt River Project, Airlines and Private Rail Car Companies.

# Special Session on Tax Reform and Distribution

As a result of the Special Session, which was completed on April 3, 1980, the Arizona State Legislature has developed a comprehensive property tax and education finance reform package. The primary goal of this package is to reduce the reliance on the property tax as a source of revenue within the State of Arizona, and to impose constitutional limits on future increases in property taxes and government spending within the State.

The essential parts of the system were placed in the Arizona Constitution after being voted on by Arizona citizens at a Special Election held June 3, 1980. The voters passed the referendum by a 2-1 margin.

This summary will only cover the major legislation that affects the Department of Revenue, specifically; (1) property tax reforms and (2) the repeal of the State sales tax on food.

PROPERTY TAX REFORMS

The new property tax system creates two separate subsystems: A primary system used for levying property taxes to fund government operations upon a limited property valuation base; and a secondary system used for the levying of all other taxes (bond, special district and override taxes) upon actual full cash value. The new system has several major elements:

1. A limitation on the percent of annual increases in property values used for the primary tax system.

2. A limitation on the total property tax levies of cities, counties, community college districts and school districts.

3. A restructuring of the assessment ratio system for all classes of property.

4. A limitation on the maximum primary property tax liability of all homeowners - equal to 1% of the limited value of their property.

The limitation on property value increases is designed to protect taxpayers from dramatic, unpredictable increases in their property values and their property tax bills. The value determined, using the limitation, will be used for primary property taxes. For tax years 1980, 1981 and 1982, the value of any particular property will not be allowed to increase by more than 10% over the prior year's value, provided that no substantial physical changes were made to the property. Further, in no event will the value be permitted to exceed the actual market value of the property. This limitation will only apply to properties contained in the following legal classes: 3, 4, 5, 6 and railroad properties (see below for class definitions).

The property tax collection limitations will limit the increase in the property tax collections of counties, cities and school districts. For the 1980 tax year, these jurisdictions will be limited to an increase in collections (over the amount collected in 1979) equal to the increase of the assessed valuation of these jurisdictions (not to exceed an increase of 1%). After 1980, collections will be limited to 2% of the prior year's collections plus the amount of property tax collections directly attributable to new construction or the annexation of properties.

The restructuring of the assessment ratio system will result in a reduction of the percentage of all property's full cash value that is used for the levying of property taxes. The following chart illustrates the assessment ratios that will be in effect for the 1980 tax year, as well as the assessment ratios that were in effect for the 1979 tax year.

| Class | | 1979 Ratio | 1980 Ratio |
|---|---|---|---|
| 1 | Mines, Timbers, Airlines | 60% | 52% |
| 2 | Utilities | 50 | 44 |
| 3 | General Commercial | 27 | 25 |
| 4 | Agriculture and Vacant Land | 18 | 16 |
| 5 | Residential | 15 | 10 |
| 6 | Rental Residential | 21 | 18 |
| 7 | Railroad and Private Rail Cars | 36 | 34 |

The assessment ratio for Classes 1, 2 and 7 properties will be further reduced over time until they reach the same percentage as Class 3 properties in 1992. This reduction will be accomplished by dropping the ratio of Class 1 properties

by eight percentage points every three years and by dropping the ratio on Class 2 properties by six percentage points every three years. The assessment ratios for railroad properties will be set annually at the average ratio for all commercial and industrial properties pursuant to federal law.

The limitation on the maximum primary property tax liability of homeowners guarantees that no homeowner will have to pay a primary tax bill in excess of 1% of the limited value of the home. The interaction of the limitation on collections and the new assessment ratio system, when combined with the other provisions of the new system, will result in the vast majority of homeowners receiving a tax bill which is substantially below 1% of the property's limited value. (However, for those homes which would have received a bill in excess of 1%, a special mechanism has been established which will provide specific relief to the school district in which the home is located so that the actual property tax payment for the home can be reduced to 1% of the home's limited property value.) The 1% limitation will not in any way affect the ability of the local jurisdictions to levy property taxes. The 1% maximum is provided by state funding and is not a drain on local government revenue.

The property tax exemptions for widows and veterans provided in Article IX, Section 2, Constitution of Arizona, were substantially expanded to include widowers and certain disabled individuals. The Department defined "disabled" for this exemption. Additionally, the dollar values were adjusted to reflect the new assessment ratios. The exemption was also graduated so that the value of the exemption declines as an individual property value increases. The maximum permissible income which an individual may have and still qualify is $7,000 or $10,000 - depending upon whether the claimant has minor children living at home. The property tax exemptions and the income requirements may be increased by the legislature to allow them to make necessary adjustments for inflation. The following table illustrates the graduated exemption and the new values:

SCALED PROPERTY TAX EXEMPTION

| Property Value | Assessed Value | Exempt Assessed Value |
|---|---|---|
| $ 35,000 | $ 3,500 | $ 1,500 |
| 40,000 | 4,000 | 1,000 |
| 45,000 | 4,500 | 500 |
| 50,000 | 5,000 | 250 |

In addition to the major elements discussed above, this proposal contains a number of minor provisions which will be listed in this section.

The first of these is a change in the constitutional bonding limits required to compensate for the adjustments to the property classification system and the assessment ratios.

Under prior constitutional bonding limits, every county, city, town, school district or other municipal corporation was limited to a bonded indebtedness of 4% of assessed valuation. With additional voter approval, the maximum bonded indebtedness was 10% for counties and school districts, and 15% for cities and towns. Under the new constitutional bonding limits, every county, city, town, school district and municipal corporation is limited to a bonded indebtedness of 6% of assessed valuation. With additional voter approval, the maximum bonded indebtedness is now 15% for counties and school districts, and 20% for cities and towns where the bonded indebtedness is for supplying general utilities and recreational open space facilities. Additionally, unified school districts may now acquire bonded indebtedness to an amount not exceeding 30% of district assessed valuation.

Secondly, there is a new state property tax rate of $1.25 and a county tax rate of 50¢, both to be used for educational purposes only.

Third, the $1.30 (in lieu) tax rate levied against properties located outside of organized school districts was eliminated. The new state and county property tax rate for education purposes will effectively replace the "in lieu" tax rate.

Fourth, there is a 5% reduction in the total primary property tax liability of all homes for the 1980 tax year only.

Fifth, there is a credit against special education excise taxes, which are levied on mining production, to offset increases in the property tax rates as a result of this tax package. The credit is good for three years.

Sixth, there is an adjustment to the tax rates for 1979 in order to determine the property tax liability of unsecured property during the 1980 tax year.

Seventh, there is an appropriation to the Department of Revenue to carry out the provisions of this proposal and to assist the County Assessors in the implementation of this new system.

Finally, there are changes in guidelines for valuing agricultural properties, non-producing mines and utilities: the Department must set up new tax forms for counties along with new full cash value notices and bills, and is no longer required to supply budget forms to counties, cities and towns.

REPEAL OF SALES TAX ON FOOD

The 4% state sales tax on food was repealed beginning July 1, 1980. This repeal is expected to save Arizona taxpayers approximately $127.4 million in fiscal year 1980-81.

The transaction privilege tax (½ of the total 4% sales tax levy) is shared with the cities and counties. The cities receive 25% and the counties receive 33.6%. The remainder is deposited in the General Fund. The food sales tax repeal will hold the counties harmless; that is, they will receive their share of the revenue as if the food sales tax had not been repealed. The cities, who have additional sources of revenue available to them, will be gradually phased out of the food tax revenue sharing. They will receive 80% of the food tax revenue that they would have otherwise received in 1980-81 and then 20% less per year until they are phased out completely in 1984-85. The cities' ability to levy their own sales tax on food is not affected.

Food items which are exempt from taxation are those items which qualify for purchase under the Federal food stamp program. In addition, those items must be purchased from (1) a grocer who is eligible or could be eligible to participate in the Federal food stamp program; (2) a retailer who displays and sells food in the same manner as a grocer eligible for the food stamp program; (3) delicatessens who operate in a manner in which taxable and non-taxable items may be separately sold; (4) street or sidewalk vendors, or (5) vending machines.

Retailers who sell both food and non-food items are allowed to calculate an "average tax rate" which accurately reflects the food portion of their food sales

to total sales. This ratio may be applied to the total state tax rate to derive an "average rate". The average rate may be used by the retailer, but either the consumer or the retailer may request that the items of a particular sale be sorted and taxed or exempted as appropriate.

An income tax credit of up to $1,150 is granted to eligible grocers who purchase or upgrade their checkout equipment to provide at least two tax-computing keys. This type of equipment will help speed up the check-out procedure and eliminate the need for sorting.

SPENDING LIMITS AND THE ECONOMIC ESTIMATES COMMISSION

The Department of Revenue is indirectly affected by legislation concerning government expenditure limitations. The Economic Estimates Commission (EEC) was established in 1978 to provide the legislature with information on state personal income and state expenditure limits pursuant to Article IX, Section 17 of the Constitution of Arizona (which put a 7% limitation on state expenditures). In addition to the Director, who is the Chairman of the EEC, there are two other members; one appointed by the President of the Senate and one appointed by the Speaker of the House of Representatives.

Now, along with their past responsibilities, the EEC must establish expenditure limitations for cities, counties, community college districts and school districts. These limitations were a result of the past Special Session and the Special Election on June 3, 1980.

# Arizona's Classified Property Tax System

Arizona's property tax system is based on a statutory classification schedule by which all taxable property is classified on the basis of its use*. Each legal property class is assigned a statutory assessment ratio which is multiplied by the full cash (appraised) value of the property to determine property's secondary assessed valuation. Similarly, the assessment ratio is multiplied against the limited property values to produce primary assessed valuation. Appropriate state and local tax rates are applied to these assessed valuations. This classification schedule produces a different effective tax liability for each class of property while all property is valued on a full cash value standard. Arizona is one of the few states that uses a classification system.

The Second Special Session of the Thirty-fourth Legislature which dealt with taxation resulted in changes to the classification system. One change increased the number of legal classes from seven to eight by separating railroads from airlines, mines and timber. Another change reduced the assessment ratios for all but one class and provided for the scheduled reduction of ratios for the three highest classes over the next 12 years. The result will be a narrowing of the differences in the effective tax rate among the classes. Using the 1979 average state tax rate of $11.38 the table on the following page illustrates the levies that would be assessed on $100 of full cash value.

The ratio for Classes 1 and 2 will be reduced according to a schedule established by law, reaching 25% in 1992. After 1980, the ratio for Class 7 property will equal the ratio of the total assessed valuation of Classes 1, 2, and 3 to the appraised value of such property.

The new tax legislation included other factors which affect the effective tax rate. The first of these is

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* Three classes - Class 1 (except timber, Class 2 and Class 7 - are valued by the Department of Revenue. The other classes are valued by the county assessors.)

the introduction of the "limited value" concept. Through this new concept, each parcel is assigned a full cash value and a limited value, which is the current full cash value or 110% of the previous year's limited value, whichever is lower. The limited value for 1979 is the property's full cash value. The full cash value is used to determine the amount of secondary property taxes due. Secondary taxes are ad valorem or special assessments used for bonded indebtedness, assessment districts, limited purpose districts other than school and community college districts, and budget overrides. The limited value is used to determine the amount of primary property taxes, which are all property taxes other than secondary taxes. Primary property taxes are restricted by levy limitations on local governments and, for Class 5 (residential) properties, primary taxes are limited to 1% of the property's full cash value. In addition, for 1980 primary property taxes for Class 5 property are to be reduced by 5%.

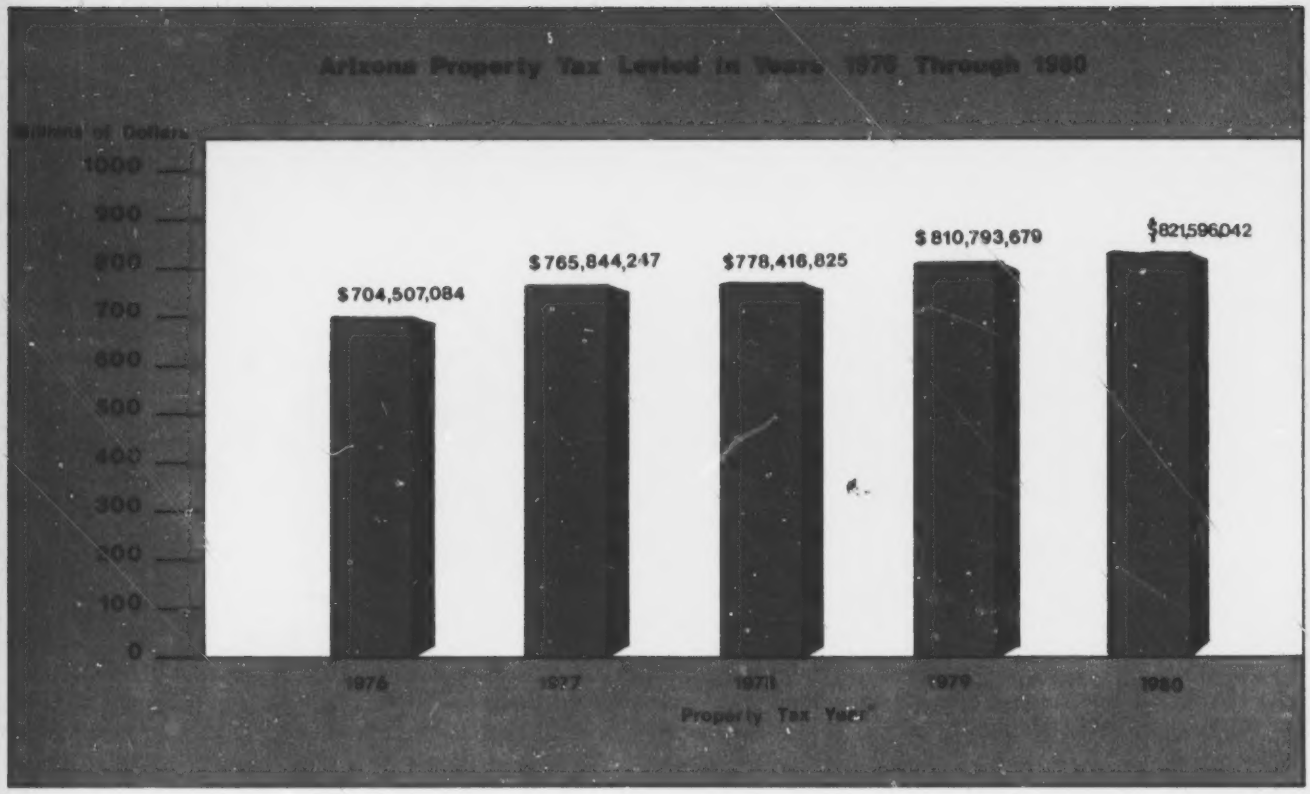
One last factor affects the effective tax rate; the level of taxes in the districts in which the various classes of properties are located. Class 1 properties are often located away from population centers where the need for public services is reduced. Tax rates in these areas are generally lower than in areas where Class 5 properties are located, since that type of property usually demands a higher level of service.

EFFECTIVE TAX RATES
ON $100 OF FULL CASH VALUE **

| CLASS | 1979 RATIO | 1979 EFFECTIVE TAX | 1980 RATIO | 1980 EFFECTIVE TAX |
|---|---|---|---|---|
| 1. Airlines, Mines and Timber | 60% | $6.83 | 52% | $5.92 |
| 2. Utilities | 50% | 5.69 | 44% | 5.01 |
| 3. Commercial and Industrial | 27% | 3.07 | 25% | 2.85 |
| 4. Agricultural | 18% | 2.05 | 16% | 1.82 |
| 5. Residential | 15% | 1.71 | 10% | 1.13 |
| 6. Leased and Rented Residential | 21% | 2.39 | 18% | 2.05 |
| 7. Railroads | 36%* | * | 34% | 3.87 |
| 8. Historic Properties | 7% | .80 | 8% | .91 |

* Special Assessment Ratio for 1979 only; in all other years included in Class 1.

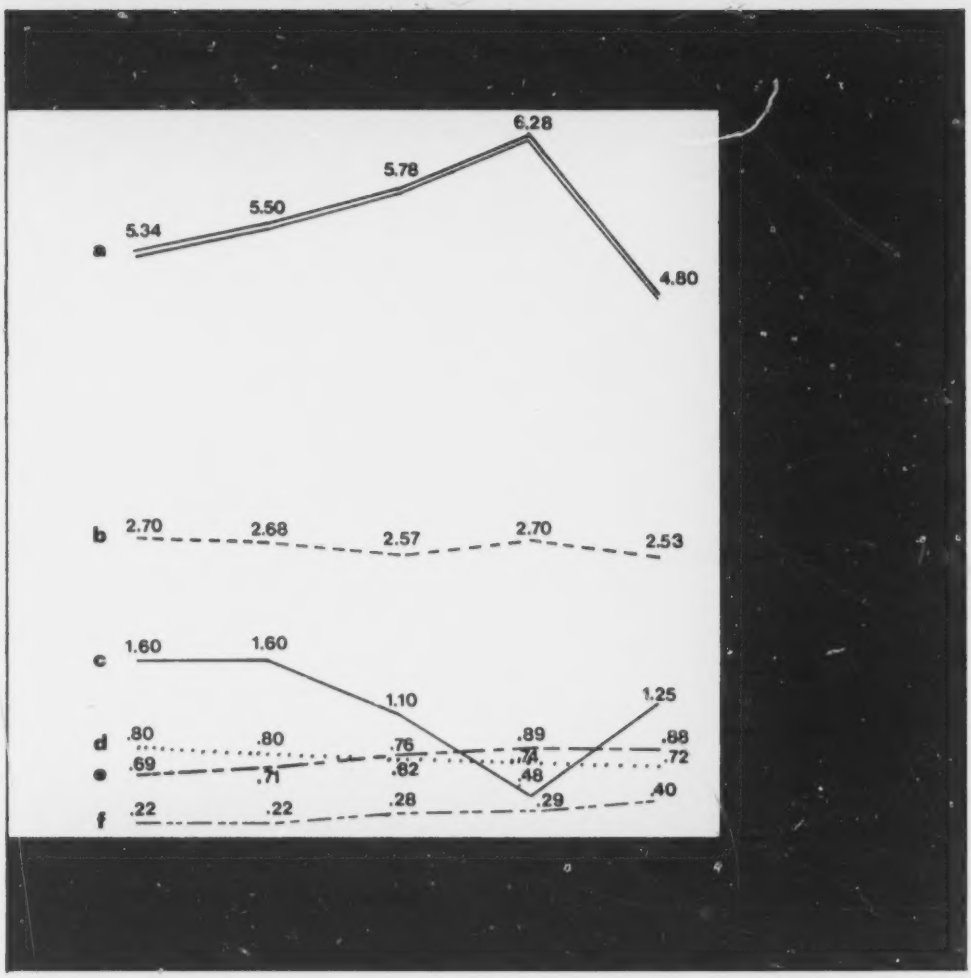
** Hypothetical




## Analysis of Property Tax Levied

| | State | County | City | School Districts | Special Districts | Community Colleges | Totals |
|---|---|---|---|---|---|---|---|
| 1976 | $ 99,203,363 | $168,289,261 | $49,346,542 | $332,542,963** | $12,626,534 | $42,498,421 | $704,507,084 |
| 1977 | 105,486,106 | 178,595,713 | 53,043,852 | 366,042,701** | 15,117,979 | 47,557,896 | 765,844,247 |
| 1978 | 75,701,324 | 177,199,062 | 52,490,423 | 397,737,383** | 18,830,759 | 56,457,874 | 778,416,825 |
| 1979 | 34,194,839 | 192,180,342 | 52,848,066 | 447,752,646** | 20,366,494 | 63,451,292 | 810,793,679 |
| 1980 | | | | | | | |
| Primary | 96,260,779 | 171,912,244 | 30,962,718 | 295,918,623 | - | 64,697,154 | 659,751,518 |
| Secondary | - | 24,352,224 | 25,503,705 | 76,279,804 | 32,391,567 | 3,317,224 | 161,844,524 |
| | | | | | | | $ 821,596,042 |

* Property tax year 1980 corresponds to fiscal year 1980-81.
** Unorganized territory amount of $1,432,473 in 1976, $1,509,906 in 1977, $1,775,431 in 1978, $2,040,034 in 1979 and $1,016,953 in 1980 was combined in school districts' figures.




**Average Property Tax Rates** ***

PER $100

| Source | Legend | 1976 | 1977 | 1978 | 1979** | 1980 | Percent of Total Tax Rate in 1980 |
|---|---|---|---|---|---|---|---|
| School Districts* | a | $ 5.34 | $ 5.50 | $ 5.78 | $ 6.28 | $ 4.80 | 45.30 |
| Counties | b | 2.70 | 2.68 | 2.57 | 2.70 | 2.53 | 23.89 |
| State | c | 1.60 | 1.60 | 1.10 | .48 | 1.25 | 11.72 |
| Cities | d | .80 | .80 | .76 | .74 | .73 | 6.87 |
| Community Colleges | e | .69 | .71 | .82 | .89 | .88 | 8.28 |
| Special Districts | f | .22 | .22 | .28 | .29 | .41 | 3.94 |
| TOTAL | | $11.35 | $11.51 | $11.31 | $11.38 | $10.60 | 100.00 |

* Unorganized Territory Tax Rates are included in the School District Rate.

** The 1979 tax rates were applied to adjusted net assessed valuation. Adjusted net assessed valuation is derived by dividing the net assessed valuation by a factor of 1.15; Laws 1979, Chapter 153, Section 6.

*** Combined Primary and Secondary Rates.

# Review of 1980 Legislation

| Chapter of Law / Bill Number | Taxation Division - Income & Withholding Tax |
|---|---|
| Chapter 39<br>H.B. 2184 | An emergency measure which authorizes the Executive Director of the Solar Energy Commission to adopt standards for solar thermal collectors, solar domestic hot water systems and other solar devices as deemed necessary, in order to qualify these for income tax credits. The tax credit for solar energy devices applies to tax years beginning after December 31, 1977. Amended ARS 43-1031, as amended by Laws 1979, Chapter 146, Section 10. Repealed ARS 43-1031, as amended by Laws 1979, Chapter 145, Section 24. Amended ARS 43-1074, 43-1161, 43-1162. Effective April 17, 1980. |
| Chapter 44<br>S.B. 1172 | Indexes the value of certain income tax exemptions, deductions and credits. The value of these items will be increased annually by the percentage increase in inflation as measured by the Metropolitan Phoenix Consumer Price Index, or a similar state-wide index should such an index become available. The indexing provision has been passed in session law for tax years 1978 and 1979 individually; this bill makes it a permanent provision of the Income Tax Code. Amended ARS Title 43, Chapter 2, by adding Article 4. Amended ARS 43-1012, 43-1023, 43-1041, 43-1057, 43-1072, 43-1073, 43-1332. Effective retroactively beginning from and after December 31, 1979. |
| Chapter 89<br>H.B. 2038 | Conforms the individual and corporate Arizona Income Tax Code to the Federal Code for the deduction of contributions made to charitable organizations. The change will allow individuals to deduct |

a maximum of 50% of Arizona Adjusted Gross Income, compared to the existing limit of 20%. The maximum corporate deduction remains at 5% of Federal Taxable Income. Repealed ARS 43-1046, 43-1123. Amended ARS Title 43, Chapter 10, Article 4, by adding a new Section 43-1046. Amended ARS 43-1121, 43-1122, 43-1124. Effective July 31, 1980.

Chapter 212
S.B. 1030

Conforms the Arizona Income Tax Code to the Federal Code by allowing a tax exempt status for non-profit mutual ditch, irrigation and water companies. To qualify, an organization must derive at least 85% of its income from collections from members for the sole purpose of meeting expenses and losses.
Amended ARS 43-1201. Effective July 31, 1980.

Chapter 215
S.B. 1092

Allows Arizona taxpayers to submit estimated income tax payments if they so desire. The amount of payment may be either 10 or 20% of the required federal income tax estimate, or any amount which reasonably reflects a taxpayer's estimated unpaid liability.
Amended ARS Title 43, Chapter 5, by adding Article 6. Effective October 1, 1981.

Chapter 235
H.B. 2061

Requires landlords, upon request of the tenant, to furnish to the tenant the percentage of rental payments that are attributable to property tax on the tenant's rental unit. The tenant may apply that percentage against the total rents paid to derive the amount that tenant will be allowed to deduct on the Arizona income tax.
Amended ARS Title 43, Chapter 10, Article 4, by adding Section 43-1060. Effec-

| Chapter of Law / Bill Number | Taxation Division - Income & Withholding Tax |
|---|---|
| | tive retroactively beginning from and after December 31, 1979. |
| Chapter 240 S.B. 1173 | Provides for the adoption into the Arizona Code of all changes in the Federal Income Tax Code and Estate Tax Code that were made during 1979 and through April 7, 1980. These changes include a delay until 1982 of restrictions on net operating losses when control of a loss corporation is acquired by its shareholders or another corporation; the stepped-up or stepped-down basis of property acquired from decedents dying after 1979; for taxable years beginning after December 31, 1980, an individual is allowed to exclude from gross income the first $200 of combined dividends and interest received during the taxable year. These changes must be adopted or rejected annually since the Arizona income tax and estate tax were "piggybacked" to the Federal Code. In addition, several technical corrections were made to Title 42 and 43, including the repeal of multiple enactments and striking references to the State Tax Commission. Section 21 of this act is effective retroactively beginning from and after December 31, 1979. Effective July 31, 1980. |
| Chapter 253 S.B. 1220 | Allows individuals to deduct the cost of vehicle emission testing on their income tax return. Amended ARS Title 43, § Chapter 10, Article 4, by adding Section 43-1060. Effective December 31, 1980. |
| | Taxation Division - Sales & Use Tax |
| Chapter 25 H.B. 2176 | Reduces the number of occasions per week a series of bingo games may be conducted at any single location to three occasions per week. A licensee is also pro- |

| Chapter of Law / Bill Number | Taxation Division - Sales & Use Tax |
|---|---|
| | hibited from conducting a game of bingo at any rented location in the previous 48 hours. The number of licensees which may jointly own bingo equipment is reduced from 3 to 2 licensees. The value of the prize to be offered in any single game is reduced to a $1,000 maximum. The total value of prizes of any series of games played during an occasion is limited to $3,000.<br>Effective July 31, 1980. |
| Chapter 48<br>S.B. 1132 | An emergency measure which provides a sales tax exemption for the rental of tapes, slides and films by radio and television stations.<br>Amended ARS 42-1314. Effective April 17, 1980. |
| Chapter 62<br>H.B. 2303 | An emergency measure which provides that the state sales tax be levied on newspaper circulation revenue only (wholesale price), and not on revenues retained by carriers or other vendors (retail price). This act applies retroactively to tax periods beginning from and after December 31, 1975.<br>Effective April 18, 1980. |
| Chapter 70<br>S.B. 1171 | Changes the monthly filing date and the due date of the sales tax and the use tax from the fifteenth (15th) day of the month after the tax accrues to the first (1st) day of the second (2nd) month after the tax accrues. Also allows the Department of Revenue to authorize quarterly or annual payment of the use tax if the taxpayers estimated liability is at a minimal level (yearly if annual liability is $200 or less, quarterly if $500 or less). The interest rate on past due use taxes |

| Chapter of Law / Bill Number | Taxation Division - Sales & Use Tax |
|---|---|
| | is increased from 1/2 to 1% per month. Amended ARS 42-1322, 42-1412, 42-1414. Effective August 1, 1980. |
| Chapter 111 H.B. 2219 | An emergency measure which provides that after June 30, 1980, the sales tax on the leasing or renting of real property will be levied only once per individual piece of property. In the past each lease and sublease was taxed, leading to a pyramid effect. The bill provides that the sales tax will be collected only from the person leasing or renting to the tenant in possession of the property. If that person is not engaged in the business of renting or leasing real property, the tax is levied on that person closest in the chain of subleases to the tenant who is in the business of renting or leasing real property. Amended ARS 42-1314. Effective April 22, 1980. |
| Chapter 149 S.B. 1300 | Clarifies statutory language to insure that both state and local sales taxes collected may be excluded from gross receipts before calculating the state sales tax liability. Amended ARS 42-1302. Effective July 31, 1980. |
| | Taxation Division - Luxury Tax |
| Chapter 148 S.B. 1196 | Changes the due date for filing the luxury tax return for liquor wholesalers from the tenth (10th) of the month after the tax accrues to the first (1st) day of the second (2nd) month after the tax accrues, thereby allowing approximately three additional weeks for filing and payment of the |

| Chapter of Law / Bill Number | Taxation Division - Luxury Tax |
|---|---|
| | tax due. Additionally, a penalty of 10% of the total tax due plus interest at the rate of 1% per month will be levied upon taxpayers who fail to make payment within five days from the due date. Amended ARS 42-1205. Effective July 31, 1980. |
| | **Taxation Division - Estate Tax** |
| Chapter 40 S.B. 1304 | Provides for the creation of a clearing account into which proceeds from the sale of escheated property are to be deposited, and from which claims against escheated property may be paid. Funds in the account which remain unclaimed after 12 months are credited to the permanent state school fund. Heirs and devisees are given seven years in which to file a claim for the proceeds of the escheated property with the Department of Revenue. Claimants who are dissatisfied with the Department's ruling may commence action in Superior Court to establish their claim. Effective July 31, 1980. |
| Chapter 41 S.B. 1305 | Increases the amount belonging to the decedent on deposit in a bank account, which is exempt from 'consent' to 'release' by the Department of Revenue, from $5,000 to $10,000. Amended ARS 42-1514. Effective July 31, 1980. |
| Chapter 46 S.B. 1299 | Allows the Department of Revenue, with approval of the Attorney General, to abate small estate tax liabilities. The administrative expense of collecting many estate tax balances exceeds the amount of tax due. Amended ARS 42-1504. Effective July 31, 1980. |

| Chapter of Law / Bill Number | |
|---|---|
| | Division of Property and Special Taxes |
| Chapter 21<br>H.B. 2126 | An emergency measure which provides that the notifications of full cash value and the property tax appeals process be delayed for tax year 1980, to accommodate the provisions of the special session tax reform package.<br>Effective April 1, 1980. |
| Chapter 143<br>S.B. 1198 | An emergency measure providing for the exemption from property taxation of leased buildings which are used for educational purposes by common, high or unified school districts or community college districts and are not used or held for profit. This provision includes portable buildings that were obtained through lease-purchase or similar agreements and which are used for educational purposes.<br>Amended ARS 42-271. Effective retroactively to the taxable year beginning from and after December 31, 1979 as of April 22, 1980. |
| | General Legislation |
| Chapter 192<br>S.B. 1091 | An emergency measure which provides that the Department of Revenue, upon approval of the Joint Legislative Budget Committee, shall set reimbursement rates for state travel by automobile and airplane. The Department shall take into consideration rates established by the United States Internal Revenue Service as acceptable for income tax purposes.<br><br>This act also provides that a flat per diem subsistence allowance, in the amount of $40, be paid for travel within or without the State, for each 24-hour period, if the person provides lodging receipts. Receipts of expenses are required of a |

| Chapter of Law / Bill Number | General Legislation |
|---|---|
| | person claiming out-of-state travel costs which exceed the $40 limit. Furthermore, the assistant director of finance shall: (1) establish procedures for claiming amounts less than the flat per diem allowance by a person traveling less than a 24-hour period or by a person not providing lodging receipts, and (2) establish procedures for claiming per diem by persons required, for a period of not less than 30 days, to reside away from their primary residence. Effective April 23, 1980. |
| Chapter 220 H.B. 2313 | Consolidates all tax collection procedures into a single chapter of law, and provides for the uniformity of forms, procedures, and administration. Additionally, this act increases the interest rate charged on all delinquent taxes to 12% annually or 1% per month. Effective July 31, 1980. |

# Legislation Recommended for 1981

## LUXURY TAX

1. Amend ARS 42-1213 to permit the seizure of any luxury on which the Luxury Tax imposed by the statute has not been accounted for and paid to the state.

Purpose

Currently the statute allows seizure of articles to which official stamps have not been affixed as required by the article. At this time only cigarettes are stamped. All other tobacco products and liquor are on a reporting, non-stamp, procedure. This proposal would permit the Department to seize any luxury on which the tax has not been paid, regardless of whether an affixed stamp is required, thereby discouraging the practice of bringing unreported luxuries into the state and distributing such luxuries through commercial channels without payment of the luxury tax.

Revenue Impact/Comments:

Minimal revenue gain.

## SALES & USE TAX

1. Amend ARS 42-1314(a)(3) to provide for the taxation of gross receipts derived by a lessor from the activity of leasing or renting nonresidential real property where such property is leased or rented or is intended to be leased or rented for a period of six months or more.

Purpose

The expectation or accomplishment of the rental of commercial real property for six months or more represents continuing activity. The continuity of such activity is conclusive evidence that a lessor is not engaged in casual activity.

Revenue Impact/Comments:

The revenue impact cannot be estimated, but is immaterial. The benefit of this amendment would be that the question of casuality in the rental of commercial real property would be legislated, thus reducing the question concerning this area of taxation for the Department of Revenue and the taxpayer.

2. Amend ARS 42-1321 A.1 to include diesel fuel as an exemption from the Transaction Privilege Tax. Gasoline is currently exempted.

Purpose

To remove diesel fuel from Transaction Tax in order to avoid double taxation on diesel fuel when sold by a supplier to a common carrier who also pays a Department of Transportation tax on motor vehicle fuel.

Revenue Impact/Comments:

The revenue impact cannot be estimated, but is immaterial. The benefit of this amendment would be that double taxation would cease and, where occurring, a refund allowed.

3. Amend ARS 42-1409 A.1 to read: "Tangible personal property sold in this state, the gross receipts upon which the tax has already been paid to this state, as imposed by Article 1 of this chapter."

Purpose

To impose the use tax upon Arizona purchasers on purchases from Arizona vendors when the tangible personal property is for purchaser's own use, storage or consumption. Currently, an Arizona retailer accepts an affidavit from a licensed individual that the purchase is for resale. At this time, the Seller is held liable for the tax. The amendment would allow the transfer of liability to the purchaser when the vendor has met statutory requirements of establishing exempt sales.

Revenue Impact/Comments:

The revenue impact is none.

4. Amend ARS 1416 to read: "Any person failing to pay the tax imposed by this article within the time prescribed shall pay, in addition thereto, a penalty of 10%, plus interest at the rate of 1% per month..."

Purpose

To apply a uniform interest on use tax deficiencies and late penalties.

Revenue Impact/Comments:

Minimal

5. Amend ARS 42-1327 (E) and 42-1414 (F) to read: "... every notice of a determination of an additional amount due shall be mailed within three years after the first day of the second month after the tax accrues..."

Purpose

To provide uniformity between the three years statute of limitations and the new filing dates established by 1980 legislation.

Revenue Impact/Comments:

Minimal

6. Amend ARS 28-1012.7 to include diesel fuel in the definition of "motor vehicle fuel."

Purpose

The amendment of number 2 above exempts diesel fuel from the transaction privilege tax. This amendment completes the process of only taxing diesel fuel under the transaction privilege tax when it is used for off-highway purposes. Here diesel fuel is taxed as gasoline for on-highway purposes.

Revenue Impact/Comments:

None

7. Amend present law to provide legislation which would give Revenue the authority to abate Sales Tax penalty in the same manner as Income Tax.

Purpose

This would allow the Department to abate assessed penalties on Sales Tax pursuant to established criteria with the concurrence of the Attorney General.

Revenue Impact/Comments:

Minimal

8. Amend present law to provide greater power in abating small tax balances.

Purpose

To establish criteria to allow the Department of Revenue to write-off or remove tax, penalty and interest on accounts with the concurrence of the Attorney General where the cost of collection exceed the tax due. This would allow the write-off of Sales and Use Tax in a manner similar to that allowed pursuant to ARS 43-1460, for Income Taxes. Such legislation will also reduce the number of delinquent accounts which need to be serviced.

Revenue Impact/Comments:

Minimal

## PROPERTY & SPECIAL TAXES

1. Repeal ARS §§ 42-721, 42-722, 42-723, 42-724, 42-725, 42-726 to eliminate property tax reporting by express companies.

Purpose

To repeal statutes pertaining to a type of company that no longer exists. Changes in the business community have led to common carriers accepting express shipments that are co-mingled with common freight.

Therefore, companies engaged solely in the business of express shipments no longer exist. Property utilized by common carriers is taxed as airlines or railroads or through vehicle registration.

Revenue Impact/Comments:

None

2. Amend ARS §§ 42-641.01(c) and 42-642(c) so that mobile homes being changed from the unsecured to the real and secured tax roll as the result of filing of an affidavit of affixture shall remain on the unsecured tax roll for the following tax year.

Purpose

To prevent mobile homes for which an affidavit of affixture has been filed from escaping taxation in the year in which the affidavit is filed. Because the real and secured tax roll closes January 1, property cannot be placed on that roll mid-year. However, under current law, when an affidavit of affixture is filed, the mobile home is removed from the unsecured roll but cannot be placed on the real and secured roll until the following year.

Revenue Impact/Comments:

Prevent a loss of revenue on an estimated $55,000,000 of full cash value per year.

3. Amend ARS § 42-1612 to require that an affidavit of legal value be completed on the sale of all mobile homes except those being sold by mobile home dealers.

Purpose

To provide a more accurate indicator of market value for mobile homes. Currently, depreciation schedules are based only on sales reports from mobile home dealers as provided by ARS § 32-1197. These reports reflect only a fraction of the sales of used mobile homes. A mobile home sales affidavit would permit the Department to include sales between individuals when developing the depreciation schedules.

Revenue Impact/Comments:

Revenue impact is indeterminable; however, use of mobile home sales affidavits would promote equity within those legislated classes into which mobile homes fall.

4. Amend ARS § 42-136 to define agricultural property in terms of minimal acreage (20 for crop land, 10 for tree crops and vineyards, and 5 for dwarf tree crops) or animal units (30 per section per year).

Purpose

It is critical to define the difference between agricultural and nonagricultural land because different statutory classifications and appraisal procedures apply to those lands. One of the classification criteria used is whether the farm or ranch is a viable economic unit. In order for the Assessors to make such a determination, the Department of Revenue has sought to set administratively minimum standards for agricultural property. The purpose of this proposal is to allow the Legislature to examine these minimum standards and to strengthen them by including them in the statutes.

Revenue Impact/Comments:

The inclusion in the statutes of minimum standards for qualification of agricultural land should reduce the number of appeals filed when land is determined to be nonagricultural and should, therefore, create a time saving at all levels of the appeal process.

5. Correct ARS § 42-742 to refer to paragraph 2 of ARS § 42-741 instead of paragraph 4.

Purpose

To correct reference to paragraphs within a statute that were renumbered by earlier statutory amendment.

Revenue Impact/Comments:

None

6. Amend ARS § 42-1612(d) to require the county recorder to send the original affidavit of real property value to the County Assessor and the Assessor to enter the parcel number on the original affidavit prior to sending it to the Department.

Purpose

To provide the Department of Revenue with a complete, correct affidavit which includes the parcel number. Under present statutes the Department receives affidavits directly from the Recorders. Many of these affidavits have incorrect or no parcel numbers on them when received by the Department. The Assessors, however, enter or correct the parcel numbers on the copy they receive from the Recorder. By transferring responsibility for sending the Department's copy from the Recorders to the Assessors, the files maintained by the Department and the studies performed using these files will be more accurate.

Revenue Impact/Comments:

Shift of expense for making Assessor's copy from Recorder to Assessor. Time saving also would be experienced by Department in eliminating need for Department staff to locate parcel numbers when missing from affidavits.

## INCOME & WITHHOLDING

1. Amend ARS 43-1126 to clarify reporting requirements and taxability of small business corporations owned by non-residents; provide a provision for carryover of loss benefits from predecessor corporations to Arizona small business corporations; and clarify the legislative intent for small business corporation elections for fiscal years ending during 1979.

Purpose

ARS § 43-1126 exempts from taxation as a corporation a small business corporation having elected such status under the Internal Revenue Code. Therefore, all profits and loss pass directly to the shareholders. There is no provision for taxation of small business corporations doing business in Arizona but owned by

non-resident shareholders. Nor is a tax benefit provided for net operating losses of Arizona corporations adopting small business corporation status consistent with carryover benefits allowed regular corporations and individuals. Provide clarity as to when small business corporation status may be claimed for Arizona tax purposes.

Revenue Impact/Comments:

None

2. Amend ARS 43-1022 to subtract from Arizona gross income the amount which is reported in Federal adjusted gross income in excess of the net proceeds earned from foreign dividend and interest for individuals.

Purpose

Dividend and interest income from foreign countries often has tax withheld by that country. The Internal Revenue Service allows a tax credit. This proposal would only tax income actually received. The revenue decrease would not be substantial and it would eliminate the taxation of income not received.

Revenue Impact/Comments:

None

3. Amend 43-301 and 43-1101 to provide filing requirements for individuals who may not have a federal adjusted gross income or corporations who may not have a federal taxable but have income taxable to Arizona.

Purpose

The new Code, by starting with the federal adjusted gross income creates a presumption that if no federal filing is required, therefore no Arizona filing is required. The primary area affected by this presumption is real estate owned in Arizona by foreigners. Such activity is often protected from Federal taxation by foreign treaties but is subject to state taxation. The impact is unknown.

Revenue Impact/Comments:

None

4. Amend ARS 43-1344 to provide for the pass through of capital gain income from a fiduciary to the beneficiary.

Purpose

The Internal Revenue Service allows capital gain income to be passed through to a beneficiary and be reported as capital gain income rather ordinary income. This allows the beneficiary to take advantage of favorable capital gains treatment. This amendment would conform Arizona law to federal law.

Revenue Impact/Comments:

None

5. Amend ARS 43-1021 and 1022 to authorize modifications specified in other sections of Title 43.

Purpose

This is a technical adjustment to centralize all modifications to federal adjusted gross income in Sections 43-1021, 43-1022, 43-1121 and 43-1122. Most modifications are provided in these Sections; however, a few adjustments are buried in other Sections. This would allow taxpayers to locate all modifications from a federal to Arizona basis within these four major Sections of the Code.

Revenue Impact/Comments:

None

6. Amend ARS 43-1021 and 43-1022 to provide for the inclusion or exclusion of income earned prior to 1/1/79 but reported in different periods for federal and state purposes.

Purpose

Due to the differences in reporting requirements between Federal and Arizona prior to 1979, the same item of income or expense was often reportable in different years.

An example would be an item of income reported in full to Arizona in 1978 and reported in installments to IRS over the next ten years would be taxed twice by Arizona unless a modification is provided to subtract that income from federal adjusted gross income.

Revenue Impact/Comments:

None

7. Amend ARS 43-1141 to exclude gross-up "dividends" from allocated income and require it to be apportioned as ordinary income.

Purpose

To prevent the exclusion of this income as a dividend inasmuch as it is not a true dividend but a reflection of the economic benefit derived from foreign tax credits.

Revenue Impact/Comments:

None

## GENERAL

1. Recommend legislation that would authorize the Department to accept voluntary liens on property as security for delinquent taxes.

Purpose

There are two major needs for this proposal - (1) Third parties could authorize liens on their property to secure another's taxes. For example, the stockholders of a closely held corporation could pledge their personal assets to secure a corporate tax obligation. (2) Taxpayers could pledge their property in lieu of a bond for an unliquidated tax claim.

Revenue Impact/Comments:

Impact unknown.

2. Legislation authorizing the Department to impose a $15 penalty for checks which are returned to it because the taxpayer's bank would not honor them.

Purpose

To reduce the number of bad checks given to the Department and to place the additional processing costs directly upon those persons, rather than upon all taxpayers.

Revenue Impact/Comments:

Legislation would have produced approximately $67,000 during FY June 30, 1980.

3. Revise the present confidentiality statutes.

Purpose

To conform to the requirements and guidelines of the Internal Revenue Service to permit a free flow of information within the Department of Revenue, with other governmental agencies and the Internal Revenue Service and protect the confidentiality of taxpayer information.

Revenue Impact/Comments:

None

4. Amend ARS 42-1327 to adopt the levy and seizure of property provisors as are granted in 42-1831. Adopt similar statute for withholding taxes.

Purpose

To encumber the business assets of a delinquent business taxpayer in order to ensure collection of taxes from businesses that are being sold. The lien gives notice to the prospective buyer and the seizure provisions allow the lien to be enforced.

Revenue Impact/Comments:

Unknown

5. The enactment of legislation to provide transferee assessment authority for certain Transaction Privilege taxes.

Purpose

To allow the Department to administratively collect delinquent taxes from the officer of a corporation responsible for the filing of sales and use tax returns.

Revenue Impact/Comments:

Unknown

6. Enact legislation requiring Withholding taxes to be withheld from all early withdrawals from state and municipal retirement systems.

Purpose

To ensure the collection of income taxes on such amounts.

Revenue Impact/Comments

Unknown

7. Amend ARS-1339.01 to provide that the Department, when acting on behalf of a city or town in collecting taxes for the city or town to do so in accordance with the same procedures used for the collection of state taxes. Also, to require those cities to conform their filing dates, etc., with those of the state.

Purpose

To allow the state to use the same procedures for collecting both city and state taxes.

Revenue Impact/Comments:

None

8. Amend ARS 32-1154 to include failure to pay income withholding and privilege taxes as grounds for revocation or denial of a contractor's license.

Purpose

Permit revocation or denial of license to persons who refuse or fail to pay taxes.

Revenue Impact/Comments:

Unknown

# Glossary

AD VALOREM - Latin, meaning according to value. Property taxes are ad valorem taxes since real property is taxed according to full cash value.

ASSESSED VALUATION - The portion of full cash value of property after application of statutory assessment ratios.

BINGO - Legalized gaming activity primarily conducted by nonprofit organizations for the benefit of their charitable purposes.

EDUCATION EXCISE TAX - Levied on the same activities as Transaction Privilege Tax, Rental Occupancy Tax and Use Tax. This tax represents one portion of what is commonly known as sales tax. Funds in this account are earmarked by the Legislature for appropriation for educational uses only.

ESCHEATED ESTATES - Personal and real property of a decedent who leaves neither a will nor known heirs. Such property is distributed to the State and the proceeds are deposited to the Permanent School Fund.

ESTATE TAX - A tax imposed upon the net estate of a deceased person when the decedent's separate property and/or his half of community property exceeds an exemption of $100,000.

FULL CASH VALUE - The value placed on property for purposes of computing assessed values and taxes. The full cash value of a property is based on its market value or value for which it is likely to sell in a transfer involving a willing seller and a willing buyer.

GENERAL FUND - The State Treasury, into which tax revenues and other income is deposited, and from which the Legislature allocates funds for government programs.

LIMITED PROPERTY VALUE - The value placed on property for purposes of computing primary assessed values and taxes. For existing and physically unchanged property, limited value is normally calculated at the

lesser of (1) the current full cash value, or (2) the previous year's limited value increased by ten percent (10%).

LUXURY TAX - A tax on the manufacture, sale or consumption of various commodities such as alcoholic beverages, cigarettes and other tobacco products.

PRIMARY ASSESSED VALUE - The assessed value of a property for primary tax purposes. It is calculated by multiplying the limited property value of the property by the appropriate assessment ratio.

PRIMARY EXEMPTION - The amount of exemption, if any, allowed against primary assessed value.

PRIMARY TAXES - Taxes raised for the ongoing operations of counties, cities, and school districts. Primary taxes are based on primary assessed values.

PROGRESSIVE TAX (OR GRADUATED) - A tax with rates that require persons with larger incomes to pay a larger proportion of their income for taxes than persons with smaller incomes.

PROPERTY TAX LEVY - The total amount of money to be raised from property taxes to help pay the operating cost of a taxing district.

PUBLIC UTILITY - A supplier of a service which is useful to the public; a railroad, airline, car line, telephone, telegraph, gas, power or pipeline company.

REAL PROPERTY - Real estate, land, buildings, a home and other permanent fixtures to the land or buildings.

RENTAL OCCUPANCY TAX - A tax levied on certain tenants who entered into long-term leases prior to December 1, 1967. Funds in the account are distributed in the same manner as Transaction Privilege Tax.

SECONDARY ASSESSED VALUE - The assessed value of a property for secondary tax purposes. It is calculated by multiplying the full cash value of the property by the appropriate assessment ratio.

SECONDARY EXEMPTION - The amount of exemption, if any, allowed against secondary assessed value.

SECONDARY TAXES - Taxes raised for (1) special districts,

(2) retirement of bonded indebtedness, and (3) voter-approved overrides of levy limits. Secondary taxes are based on secondary assessed values.

SPECIAL ASSESSMENT - A special tax levied on property to pay for local public improvement such as a sewer that will presumably benefit that property.

SPECIAL EXCISE TAX FOR EDUCATION - Levied on some of the same activities as Transaction Privilege Tax. This tax represents one portion of what is commonly known as sales tax. Funds in this account are deposited in the general account for appropriation as the Legislature deems proper.

SPECIAL REVENUE - Revenue designated by law to be used for specific purposes.

STATE BOARD OF TAX APPEALS - Two divisions, each consisting of three members appointed by the Governor, with responsibilities for reviewing and deciding appeals on matters of taxation. Division One hears appeals on matters of property value, classification and equalization. Division Two hears appeals on sales, income, luxury and estate taxes.

TANGIBLE PERSONAL PROPERTY - Property having real substance that can be appraised for value; material things such as furniture, clothes, or crops growing in the fields.

TAX BURDEN - The total financial responsibility or obligation created by a particular tax or by the combination of all taxes in a system.

TAX BURDEN RATIO - Percent of personal income spent on taxes.

TAXABLE INCOME - The amount of income subject to taxation after deductions and exemptions have been subtracted from adjusted gross income.

TRANSACTION PRIVILEGE TAX - A tax on the privilege of engaging in business in Arizona. This tax represents one portion of what is commonly known as sales tax. Funds in this account are distributed as follows: 41.4% retained by the State; 25% to the cities; and 33.6% to the counties.

UNCLAIMED PROPERTY - Personal property belonging to individuals and in the custody of "holders" (banks, insurance companies, brokerage firms, public utilities, corporations, etc.) on which there has been no activity for seven years is presumed to be abandoned.

URBAN REVENUE SHARING - Program under which a portion of the Arizona income tax collected is returned to each of the incorporated cities and towns within Arizona.

USE TAX - A tax levied on the purchaser on the storage, use or consumption in this State of tangible personal property purchased from a retailer outside of Arizona. Funds in this account are distributed in the same manner as Transaction Privilege Tax.

ARIZONA DEPARTMENT OF REVENUE

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Errata

Page 6: Second Paragraph, fifth line: The word "adults" should read "audits"

Page 9: Top Pie Chart, Grand Total: The amount $1,878,217,716 should read $1,882,430,278.

Bottom Pie Chart, Grand Total: The amount $1,445,710,419 should read $1,439,548,965.

Page 21: Bar Graph, Net Collections: For 1975-76 the amount $202,090,669 should read $209,369,032;
For 1976-77 the amount $209,369,032 should read $242,379,365.
For 1977-78 the amount $242,379,365 should read $286,650,542.

Page 22: Top Pie Chart, Title: Should read "Sources of Gross Income Tax Collections ...."

Bottom Pie Chart, Bottomline: The amount $359,616,430 should read $433,890,639.

Page 34: Bottom Graph, Private Rail Car - Pipeline: Bars are not correctly scaled to actual tax collections.

Page 56: Trend Line Graph, Trend Line "D": Should read .73 for for 1980.
Trend Line "F" should read .41 for 1980.